GROWING POTENTIAL

MAKING OUR SHARED FUTURE STRONGER

Annual Report 2006

Manitoba
Public Insurance

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Manitoba Public Insurance is a non-profit provincial Crown corporation that has provided basic automobile coverage since 1971. We assumed a broader spectrum of services in 2004, when we merged driver and vehicle licensing into our operations. The corporation is governed by *The Manitoba Public Insurance Corporation Act* and *The Drivers and Vehicles Act.*

Selected highlights of this annual report are available in French at www.mpi.mb.ca

Les grandes lignes du rapport sont présentées en français dans le site www.mpi.mb.ca

OUR MISSION

WORKING WITH MANITOBANS TO REDUCE RISK ON THE ROAD

AT MANITOBA PUBLIC INSURANCE WE VALUE...

Our Customers

Our customers' interests are at the heart of everything we do. We balance the individual customer's needs with the needs of Manitobans as a whole. We base our relationships on respect, fairness, honesty and integrity. We safeguard the confidentiality of information and personal privacy. We are committed to the highest ethical standards and excellence in service.

Our People

Our people are given the skills, tools and encouragement they need to succeed. We provide a respectful, inclusive and safe environment where our staff is well trained, confident and committed to the Corporate Mission. We provide our people with clear and consistent direction. Our people have the authority they need to do their jobs, providing a sense of achievement from their work, and the opportunity for career growth and advancement. We encourage and support our people to make a positive contribution, both inside and outside the workplace.

Working Together

We work co-operatively with each other and with our business associates, sharing expertise, ideas and resources. Each of us, in our daily work, creates a team environment, drawing on one another to do the best job possible. Our communication with one another is respectful, appropriate and helpful.

Financial Responsibility

Manitoba Public Insurance holds the funds of its policyholders in trust to meet their needs into the future. We operate in a fiscally responsible and cost-effective manner, using investment income to reduce rates and provide long-term benefits to Manitobans.

Excellence and Improvement

We constantly improve our products, services and procedures. As our customers' needs and the business environment continue to change, so must we. We value initiative, creativity and a strong desire for personal, team and corporate success in everything we do. We recognize and reward excellence and improvement in our work.

Our Corporate Citizenship

We lead by example, conducting our affairs responsibly and professionally. We contribute to the social and economic well-being of our communities as well as the sustainable development of Manitoba now and into the future.

Manitoba Public Insurance is carrying out four major strategic initiatives that will bring mutual benefits for customers and the corporation.

OUR MULTI-YEAR PLAN TO RENEW PRODUCTS AND SERVICES

For customers, the strategy means more convenience, quality, access and price protection. For the corporation, it means integrated processes, lower costs, a more reliable infrastructure and new opportunities to fulfill our mandate.

Underpinning these initiatives are the corporation's fundamental strengths:

- Rate stability
- Access
- Strong partnerships
- Comprehensive coverage
- Quality service
- Skilled people

These historic strengths, supported by hundreds of employees and business partners, make it possible to turn vision and opportunity into real benefits for Manitobans.

FUNDAMENTAL STRENGTHS

AUTO THEFT PREVENTION

- Vehicle owners encouraged to install electronic immobilizers
- Auto thieves suppressed through support of intensive monitoring programs (commitment to 2008)
- Proactive measures to encourage young Manitobans to make positive lifestyle choices

DRIVER LICENSING

- All brokers in province begin renewing driver's licences
- Renewal dates aligned with Autopac
- Introduction of new photo card, printed centrally

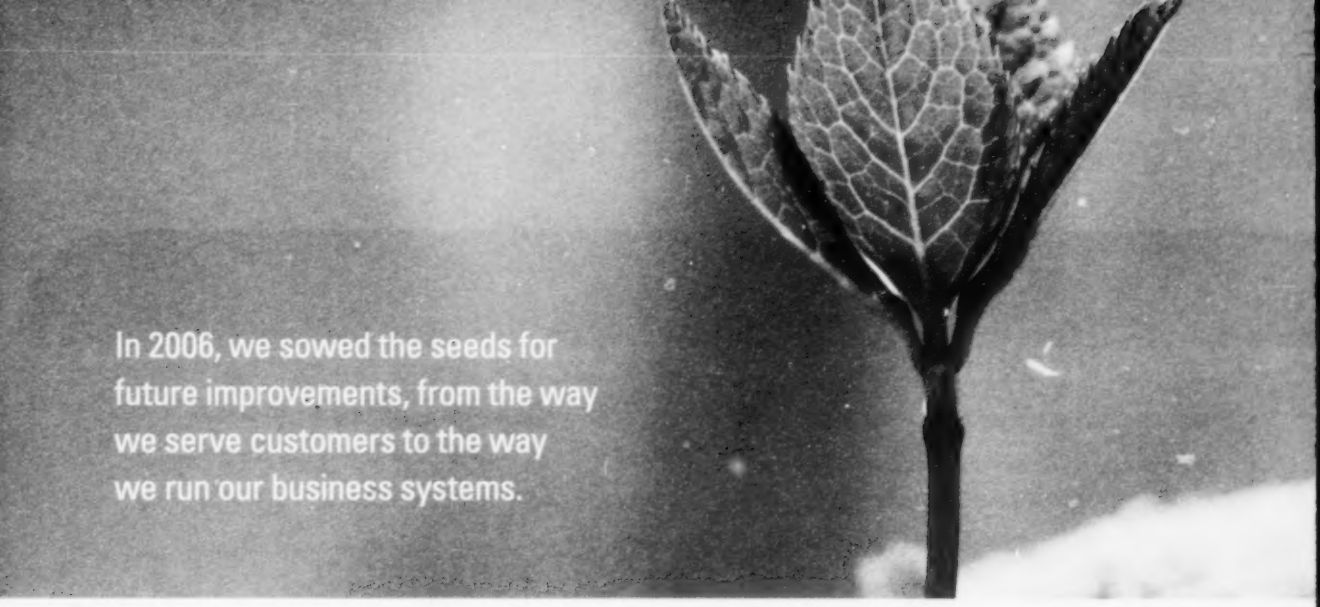
SERVICE CENTRES

- Claim centres begin conversion into full service locations, offering everything driver and vehicle licensing centres have done in the past
- Pilot in Winkler begins February 2007

IMPROVED DRIVER REWARDS PROGRAM

- Integration of licensing and insurance functions opens door to improved risk/reward system for driver and vehicle premiums

CUSTOMER BENEFITS	CORPORATE BENEFITS
• Theft protection at reduced or no cost • Annual discounts on auto insurance for theft-proofed vehicles • Greater rate stability for the entire insurance pool • Community safety and peace of mind	• Control of a future cost-driver
• The convenience of one-stop shopping – one date to remember, one visit to make • 70% more places in Manitoba to renew driver's licence • Better protection against identity theft • Improved photo card quality, better aligned with international standards	• Opportunities for operational efficiencies • Integrated databases for vehicle insurance and driver licensing • Stronger partnership with brokers • Reliable technology to replace aging system • Reduced production cost for photo cards
• Full-time driver testing services in more communities across province means faster access to testing • Easier access to driver licensing services such as vision screening and driver evaluations • More locations for commercial vehicle registration in rural areas • Ability to do multiple transactions at once	• Consolidation of corporate locations to reduce overhead • Choice of more career paths for employees • Automation of more processes for greater efficiency
• Better assessment of risk and associated premiums • Opportunity for better rewards for good driving behaviour • Stronger incentives for poor drivers to improve • Simpler and easier to understand • More consistent treatment of all drivers	• Better assessment of risk and associated premiums • More meaningful dialogue with customers about risks and rewards of different driving behaviours • Potential to positively influence driving behaviour and reduce claim costs



POTENTIAL IS GROWING AT MANITOBA PUBLIC INSURANCE

As the year began, our customers enjoyed among the lowest auto insurance rates in Canada. Coverage and service were unsurpassed. Our public auto insurance system had become an important advantage of being a Manitoban.

Now we faced new opportunities and new imperatives. It was time to step up the fight against auto theft. Replace the old system for renewing driver's licences. Make annual renewals a convenient, one-stop process for all Manitoba drivers.

As we introduced these improvements, we laid the groundwork for better value, transparency and safety for generations to come.

We began a process of renewal touching all elements of our operations – our infrastructure, our partnerships and our investment in Manitoba. And our shared future is stronger for it.

LETTERS OF TRANSMITTAL

May 12, 2007

Honourable David Chomiak
Minister Responsible for the Manitoba Public Insurance Corporation
Room 104, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

In accordance with Section 43(1) of The Manitoba Public Insurance Corporation Act, I have the honour of submitting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2007.

Respectfully submitted,

Shari Decter Hirst
Chairperson of the Board

Manitoba Public Insurance

May 12, 2007

The Honourable John Harvard
Lieutenant Governor of the Province of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your honour:

I have the privilege of presenting the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2007.

Respectfully submitted,

David Chomiak
Attorney General and Minister of Justice
Minister Responsible for Manitoba Public Insurance

Manitoba

2006 YEAR-END SUMMARY

Unless otherwise indicated, the following are 2006/07 fiscal year totals, covering the period March 1, 2006 to February 28, 2007.

Dollars and Cents

Approximate Autopac claims incurred costs per working day:	$2.4 million
Total Autopac claims costs for injury and property damage, respectively (before expenses):	$193.8 million and $402.0 million
Amount paid by Manitoba Public Insurance to Manitoba medical practitioners on behalf of customers:	$19.1 million
Commissions paid by Manitoba Public Insurance to independent insurance brokers for product sales.	$56.6 million
Grants-in-lieu of taxes paid to Manitoba municipalities by Manitoba Public Insurance:	$1.2 million
Provincial premium taxes paid by Manitoba Public Insurance (2006 calendar year):	$22.7 million
Estimated savings to policyholders through use of recycled parts:	$13.9 million
Estimated direct savings to policyholders through subrogation:	$12.2 million
Dollars invested in road safety programs:	$23.5 million

Significant Numbers

Average number of Autopac claims reported to Manitoba Public Insurance per working day:	1,077
Total Autopac claims reported:	269,135
Bodily injury claims reported:	17,443
Property damage claims reported:	251,692
Total theft claims reported in Winnipeg:	7,659
Total theft claims reported elsewhere in province:	1,549
Independent Autopac broker outlets, as of February 28, 2007	312
Calls answered by Manitoba Public Insurance Call Centre:	1,113,560
Number of Autopac policies in force (2006 average):	875,459
Licensed drivers in Manitoba in 2006:	746,554
Average weekly visits to www.mpi.mb.ca:	34,314

Five-Year Statistics

	2006	2005	2004	2003	2002
Premiums Written ($000)	812,378	779,316	745,126	680,265	641,471
Claims Incurred ($000)	628,370	616,590	541,744	578,377	534,502
Number of Claims	269,135	253,080	255,804	243,401	227,259
Average Cost per Claim ($)	2,335	2,436	2,118	2,376	2,352
Claims Expenses ($000)	79,850	78,586	75,068	75,900	67,256
Other Expenses ($000)	181,490	164,991	133,483	116,802	108,922
Income (loss) ($000)	68,388	105,809	79,521	37,263	(22,605)
Investments at Year-end ($000)	2,012,821	1,877,148	1,625,022	1,446,417	1,263,090
Total Assets ($000)	2,357,731	2,218,895	1,970,078	1,767,615	1,558,435

Board of Directors

Ed Arndt

Kerry Bittner
Vice-Chairperson

Andrew Clarke

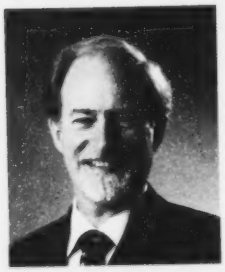
Mary Johnson

Annette Maloney

Marilyn McLaren
Ex-Officio

Manisha Pandya

Dale Paterson



Daryl Reid

MESSAGE FROM THE CHAIRPERSON

Charting the course of a corporation can be a lot like driving a vehicle: You keep one eye on the immediate conditions and gauges, and the other on the road well ahead.

That was the challenge facing Manitoba Public Insurance in 2006. As we focused on the continued success of our core business, we also began to assemble a series of strategic building blocks that will meet corporate needs and expand customer value in years to come. It's an exciting time for the corporation as these new ideas create opportunities for the future.

While this forward-looking activity was intense in 2006, our most important focal point was delivering the products and services that serve customers so well today. The strength and value of Manitoba Public Insurance lies in sound fiscal management, stable insurance rates, excellent service and comprehensive coverage – and by any measure, 2006 was another exemplary year:

- Of every dollar in Basic Autopac premium collected last year, 97 cents was returned to Manitobans in the form of claims benefits.
- The corporation handled more claims and customer inquiries than ever before yet met or exceeded corporate service standards 96 per cent of the time.
- Proactive measures to combat auto theft paid off with a five-fold increase in the number of after-market immobilizers installed in Manitoba vehicles.
- In addition, the purchase of $83 million in municipal and school bonds brought the total invested in Manitoba by the corporation since its inception to more than $1 billion.

Most of all, the corporation lived up to its promise of providing low and stable auto insurance rates in a way that no other insurance company in this country has done. For seven of the last eight years, Manitoba Public Insurance has held the line on insurance rates while providing $200 million in rebates to ratepayers. At the same time, it has maintained the most comprehensive basic insurance protection in Canada and the exceptional customer service Manitobans have come to expect.

All of our accomplishments – past and future – are built on a foundation of prudent management practices. The reliability of the corporation's forecasting process provides customers with predictability, while sound investment policies provide new opportunities. Without a healthy and stable financial base, there would be no programs like the Immobilizer Incentive Fund, which has so far subsidized theft-protection for more than 60,000 vehicles. Nor would there be repeated premium rebates for our Basic Autopac customers.

We are dedicated to ensuring that this ongoing strength and stability is not compromised. This requires proper reserving practices that enable us to build value for the long term without being derailed by every risk that presents itself. We must also maintain a corporate governance structure that emphasizes accountability, organizational effectiveness and risk mitigation. And we must continue to invest in the leadership and renewal of our work force for the decades to come.

On behalf of my colleagues on the Board of Directors, I would like to thank the staff, management and business partners of Manitoba Public Insurance. Their dedication provides Manitobans with affordable, high-quality insurance protection, delivered in a compassionate and responsive way.

It is your commitment to excellence that enables Manitoba Public Insurance to continually expand its value to our customers and this province.

Shari Decter Hirst
Chairperson of the Board

Executive

Wilf Bedard
Vice-President
Corporate Claims

Clarke Campbell
Vice-President Corporate
Information Technology and
Chief Information Officer,
Vice-President Responsible for
Driver and Vehicle Licensing

John Douglas
Vice-President Corporate
Public Affairs

Barry Galenzoski
Vice-President Corporate
Finance, Chief Financial Officer
and Chief Administration Officer

Dan Guimond
Vice-President Corporate
Insurance Operations

MaryAnn Kempe
Vice-President
Human Resources

Kevin McCulloch
Vice-President Corporate
Legal, General Counsel and
Corporate Secretary

MESSAGE FROM THE PRESIDENT

It's a tribute to the people of Manitoba Public Insurance that this corporation has never been content to rest on past accomplishments. As a Crown corporation, we know we must constantly demonstrate that we deserve the trust of Manitobans. That means we are always looking for ways to improve service, choice and all-around value for our customers.

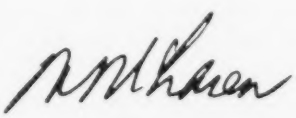
This drive for constant improvement was never more apparent than in 2006. We continued to achieve operational excellence while preparing to introduce a number of improvements for the future. These investments of time, energy and dollars will pay dividends for our premium payers and communities for many years to come. The success of each was aided by the many strong partnerships we enjoy.

- With the assistance of Manitoba's independent insurance brokers, we delivered a new one-stop shopping concept that meets all our customers' auto insurance and licensing needs and expands service locations by 70 per cent.
- In partnership with Saskatchewan Government Insurance, we delivered a new driver's licence with enhanced security features at one-third the price of the old licence.
- With the assistance of our auto theft partners, we helped more than 60,000 Manitobans immobilize their vehicles against auto theft.
- With Driver Education instructors, we introduced a new curriculum to help more than 14,000 new drivers get a proper first start.
- And we began to test a new service delivery model that will expand access to a wider range of products and services throughout the province.

As impressive as these new initiatives were, the ongoing accomplishments of every business day had farther-reaching benefits. We know that comprehensive coverage and affordable rates are the two primary concerns of our customers, and we continued to protect those advantages by protecting our financial strength. A solid investment strategy, proper reserving and careful management allowed us to keep our eyes on the horizon and seize new opportunities, thereby turning opportunities into tangible benefits.

In 2006, most customers needed to look no farther than their pocketbooks to find the concrete evidence of these efforts – another premium rebate, coupled with the promise of lower Autopac rates in the year ahead. In total, Manitobans have enjoyed nearly a decade of rate stability and rebates totaling $200 million over the last six years.

In this annual report you will read about many of the changes Manitoba Public Insurance is making to add value and earn the continued trust of customers. You can count on us to prove your confidence is well-placed.



Marilyn McLaren
President and Chief Executive Officer

RENEWING CUSTOMER SERVICE

A new era of convenience takes root

For most customers, the most visible improvement of the year was the new process for renewing Autopac policies and driver's licences together. This was the kind of customer benefit we envisioned when the Manitoba government transferred driver and vehicle licensing functions to the corporation in October 2004.

No longer would urban customers have to line up to renew their driver's licences. Never more would customers need to make two trips each year – first to renew their driver's licence, and then four months later to renew their Autopac policy.

The new process would make it possible to renew a licence through any Autopac broker in the province, including those in the urban centres. And the renewal dates would be aligned so customers could do both transactions during one visit to their broker.

The time was ripe to renew the way we renew

Spurred on by the urgent need to replace the aging photo card system for driver's licences, we worked 56,000 hours to make the vision real. The computer systems for Autopac and driver licensing were integrated, moving customers' licensing data from an outdated mainframe system to the proven Autopac On-Line system. The merger created a single profile for every customer, opening the door to more meaningful rating of customer risk in the future.

In November 2006, after 18 months of planning and development, the new system was introduced province-wide. As urban brokers began renewing driver's licences, the number of service outlets immediately grew by 70 per cent.

Our partnership with Autopac brokers is the most efficient means of providing multiple outlets for in-person transactions, and their quality service earns high marks from customers.

Full-time Outlets for	Yesterday	Today	Tomorrow
Driver's licence renewals and replacements	183	330+	330+
Knowledge (written) tests	7	8	18
Road tests	7	8	19
Commercial vehicle registration	6	7	19
Vehicle standards and inspections	3	3	13

That's why it made sense to expand broker capabilities. As all Autopac brokers began renewing driver's licences, we were able to close two corporate locations and redeploy staff.

Customers were quick to embrace the new model. Two months after the changeover, 99 per cent of customers were renewing through brokers, allowing driver and vehicle licensing offices to focus on more complex driver licensing business. As Winnipeggers renewed their licences through brokers for the first time, 95 per cent said they were satisfied or very satisfied with the service they received.

In 2006, our partnership with Autopac brokers opened the door to a 70 per cent increase in service outlets for driver licensing services. Today customers can renew their driver's licences at any one of the 300+ brokers across the province.

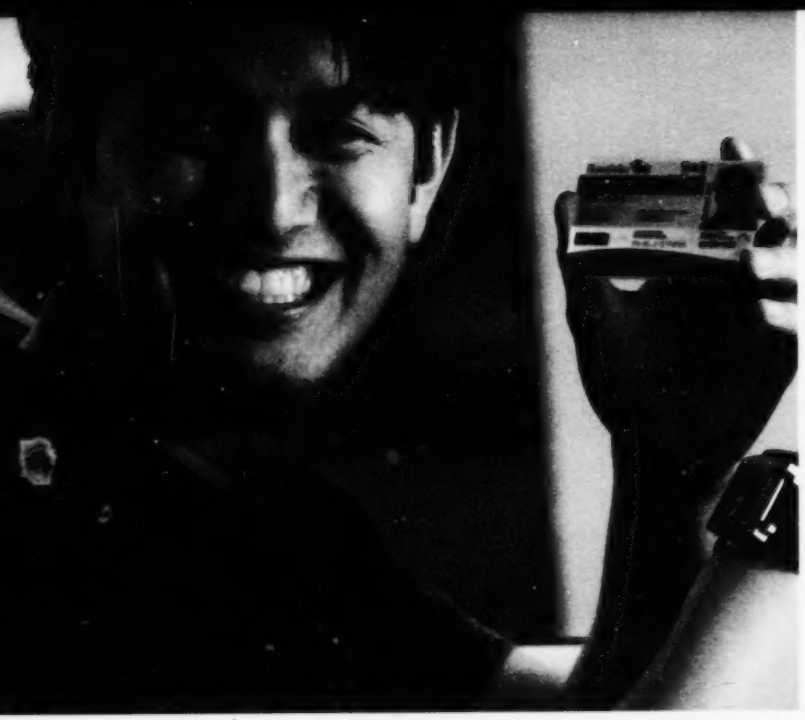
WHAT CUSTOMERS LIKE BEST ABOUT THE MERGED RENEWAL SYSTEM*

	Winnipeg	All Manitoba
Ability to renew licence at a broker's office	88%	90%
Ability to renew during evenings and weekends	92%	89%
Renewing Autopac and licence at same time	91%	89%
Look, size and enhanced security of new licence	77%	78%
Option of making monthly payments on licence	75%	75%

WHAT CUSTOMERS OF BROKERS SAID ABOUT THE SERVICE THEY RECEIVED*

	Winnipeg	All Manitoba
Generally satisfied with service	94%	95%
Satisfied with time taken to complete transaction	89%	90%

* Customers renewing driver's licences between December 2006 and February 2007



The new Manitoba licence features a colourful new photo card with high resolution printing, updated security features and a more convenient size – and it costs significantly less to produce.

Photo card security features

- Tamper-proof design
- Holographic film
- Microprinting
- Ghost image
- Fine-line, multi-colour printing
- Barcode
- Magnetic strip
- Cross-reference number
- Electronic signature
- High-resolution photograph
- Multiple typefaces

A better driver's licence is sliding into Manitoba wallets

Gone is the tired green driver's licence of years past. The new Manitoba licence introduced in 2006 features a colourful new photo card with high resolution printing. Updated security features make the new card fraud- and tamper-proof. Most importantly for many customers, the smaller photo card fits easily into a standard wallet sleeve.

While far superior in quality, the new licence didn't come with a steeper price tag. Through a partnership with Saskatchewan Government Insurance, we are able to produce the new licence for one third of the price of the old one. It adds up to better value for drivers in both provinces.

The new licence also better conforms to national standards for displaying data, paving the way for more inter-jurisdictional co-operation. From this foundation, the corporation will keep pace with emerging standards to provide the personal security Manitobans expect from their driver's licence.

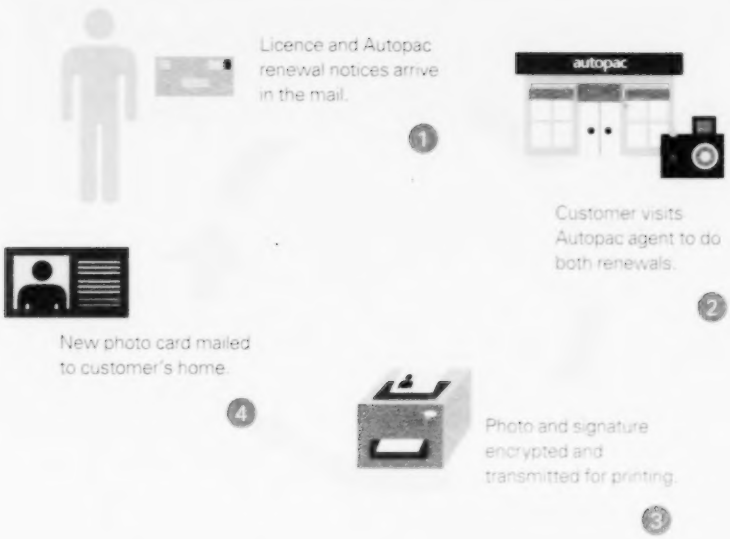
More protection against identity theft

Also new in 2006 was the improved protocol for proving identity when applying for a Manitoba driver's licence. The additional checks also help to protect Manitobans against identity theft, one of the fastest-growing crimes in the nation.

Before, new applicants were required to provide documents proving only date of birth and identity. Now, in addition to birth date and legal name, they also have to establish signature, photograph, Manitoba residence and entitlement to be in Canada using original documents from an approved source.

Identity is established as soon as someone becomes a customer. For the 14,000 students enrolling in our province-wide driver education program, it happens before they write the test to get their learner's licence.

ONE DATE TO REMEMBER, ONE VISIT TO MAKE


Licence and Autopac renewal notices arrive in the mail.
1
autopac
Customer visits Autopac agent to do both renewals.
2
New photo card mailed to customer's home.
4
Photo and signature encrypted and transmitted for printing.
3

Our claim centre in Winkler is the pilot site for the new service centre concept, which will add all the services of a driver licensing office. The new model will bring more full-time services to more communities across Manitoba.

Coming next: More services at more locations

In 2006 we also made progress toward the next major improvement in customer convenience – the expansion of claim centres into full-service locations.

As these facilities evolve, they will continue to estimate and adjust claims while also offering all the services of a driver and vehicle licensing office.

The change will create more full-time outlets for driver testing, vision screening, commercial vehicle registration and driver evaluations. In rural Manitoba, that will mean five-day-a-week service in more communities and less reliance on mobile testers.

By February 2007, we were ready to pilot the concept at the Winkler claim centre. In the year ahead, it will also be the testing ground for new technology to support the transition.

September 2006

DVL office renewals	70%
Broker office renewals	30%

December 2006

DVL office renewals	1%
Broker office renewals	99%

Just two months after urban brokers began renewing driver's licences, nearly all customers were choosing this new service option. This massive shift allows corporate staff to focus on more complex transactions.

HALTING THE THREAT OF AUTO THEFT

More than 60,000 Manitobans have now taken advantage of our incentives to theft-proof their vehicles at reduced or no cost.

Our partnership with Manitobans breaks new ground

Over the last year Manitobans became truly engaged in our battle against auto theft, a problem that threatens to erode community safety and increases the cost of insurance.

The problem is difficult and persistent, but through partnerships and a multi-pronged solution we have stemmed the rising tide of theft and are moving toward a lasting solution.

Immobilizers are locking out thieves

Just two years ago, few Manitobans could describe what an electronic immobilizer was or how it worked. Today more than 80 per cent know it's the most effective protection against theft. This dramatic change in awareness gives reason for optimism as the popularity and use of our immobilizer incentive program continues to grow.

In 2006 we continued to offer immobilizers at reduced cost to all customers while intensifying our focus on Most at Risk vehicles, which must be protected in significant numbers before our theft-proofing program can provide full benefit. In April 2006 we began to offer immobilizers to these customers at no cost – an extreme move in response to an extreme problem. While this group makes up just 10 per cent of the vehicles on the road, they account for 62 per cent of vehicle thefts.

Our efforts were aided in September 2006 by new provincial regulations making immobilizers mandatory in Most at Risk registered vehicles following a theft claim, or when one of these vehicles is entering the province. Because we arrange for the immobilizer to be installed as the vehicle is being repaired, the new requirement has been almost universally welcomed by theft claimants.

More than 60,000 Manitobans have now taken advantage of our incentives to theft-proof their vehicles at reduced or no cost. About four out of five participants are owners of Most at Risk vehicles targeted most often by auto thieves.

WATSS is paying back 6 to 1

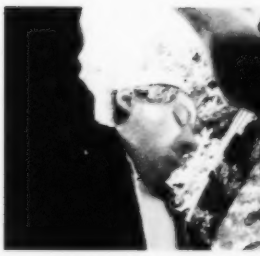
In 2006 we renewed our support for the Winnipeg Auto Theft Suppression Strategy (WATSS) by pledging another $900,000 in funding.

The program provides intensive monitoring of the worst repeat offenders while opening the doors of communication among families, schools, social services, law enforcement and probation.

At the end of 2006, 160 youth were being monitored through WATSS, including 52 who are considered the worst offenders. These Level 4 offenders are contacted up to 36 times per week under this program, compared to regular youth probation of two contacts per month.

In 2006 WATSS resulted in 964 arrests and 1,156 auto theft charges. In both cases, two-thirds of the offenders were under 18. Since the program began in September 2005, there have been 24,140 formal curfew checks and 75,457 contacts with thieves at high risk to reoffend, including 8,114 checks made in person.

When Manitoba Public Insurance joined the program, we believed WATSS would reduce claims costs by $6 for every $1 we invested into it. Since then, auto theft in Manitoba has dropped 11 per cent and the real cost of auto theft is nearly $6 million less than what we forecast it would be in 2004.



Theft volumes in 2006 were lower than in 2004 but higher than in 2005. As we entered the first months of 2007, theft rates were down substantially from the same period a year earlier, suggesting the long term trend may be flattening out or declining.

SOUND STEWARDSHIP OF YOUR PREMIUM DOLLAR

We return nearly 100 per cent of every Basic Autopac premium dollar to Manitobans in the form of claim benefits.

The seedbed for future progress and lasting value

Our financial strength is what allows us to provide the rate stability Manitobans value. It creates the opportunity to focus on the future and concentrate more of our energies on anticipating the challenges we will face in the years ahead.

The key to making premium dollars work harder is careful stewardship of corporate resources. Our operating costs are consistently about half the industry average, and we keep claim costs low by helping the local automotive trades adopt the latest – and safest – repair techniques. Anti-fraud and anti-theft efforts prevent needless losses.

These advances allow us to return nearly 100 per cent of every Basic Autopac premium dollar to Manitobans in the form of claim benefits. In 2006, the value was compounded through another premium rebate – the third in six years. We actually paid out more in claim costs and expenses than we received in Basic Autopac revenue.

Rates remained stable and affordable

Manitoba has enjoyed unprecedented auto insurance rate stability. According to Statistics Canada, auto insurance rates in Manitoba have increased just 6.3 per cent since 1999. That compares to an average increase of 41.6 per cent across Canada, including jumps of 75.2 per cent in Alberta and 40 per cent in Ontario.

In eight of the last nine years, we have held the line or reduced Autopac rates. In 2006 rates went down for about 58 per cent of vehicles and remained unchanged for another 4 per cent. Of those who saw an increase, the change was less than $50 for about 87 per cent of customers.

In 2007, there will be a drop in rates for more vehicles. In November 2006, the Public Utilities Board ruled that the overall rate will decrease by 2.6 per cent, with rates going down for about 75 per cent of vehicles. Of the 19 per cent that will experience an increase, only about a third will see rates rise by more than $20. Average family passenger vehicle premium will be $805, a reduction of $25.

47.2%	Our Basic operating costs compared to the industry average
$11 million	Savings resulting from fraudulent claim investigations this year
1,518	Tips received about suspected fraud
$129 million	Income earned on investments
60,000	Immobilizers installed to halt rising theft claims
97 cents	Amount of every Basic premium dollar returned to Manitobans through claim benefits
$60 million	Premium rebate ordered by PUB in 2006
$100	Premium rebate for the average customer
$200 million	Total rebates returned to Manitoba ratepayers since 2001
$127	Average reduced cost of every premium because of investment income

$200 million in rebates returned to Manitobans over three years

In May 2006, we returned $58 million to Manitobans in the form of a premium rebate. In November 2006 the Public Utilities Board ruled that customers would receive a further $60 million rebate on premiums paid for the 2005/06 insurance year. Combined with the $80 million rebate provided in 2001, this amounts to a total repayment of nearly $200 million in six years.

The rebates underline the advantages of the public auto insurance system. When Manitoba Public Insurance does well, the benefits of our success flow directly back to you.

2006/07 Rates

No Change	4 %
Decreasing	58 %
Increasing	38 %

2007/08 Rates

No Change	6 %
Decreasing	75 %
Increasing	19 %

In 2006/07, Autopac rates decreased for more than half of the vehicles in the Manitoba fleet. In the year ahead, rates are decreasing for three-quarters of vehicles. Only one of every five vehicles will see rates rise in 2007/08.

We work with the industry to keep repair quality high and repair costs low. This partnership adds up to the best possible value for customers.

PROTECTING ACCESS TO QUALITY COVERAGE

Public injury compensation is provided for all Manitobans injured in motor vehicle collisions anywhere in North America.

Public insurance yields reliable benefits

Even the cheapest insurance is poor value if the coverage is inadequate – or if customers are afraid to use the coverage they've paid for because of penalties.

In Manitoba, customers know they can access their insurance, and they receive superior coverage when they do.

Low claim volumes in Ontario, Alberta and other jurisdictions suggest drivers hesitate to use their insurance because they are penalized for doing so – even when they have not caused the crash. Instead of making a claim and using the insurance they've paid for, drivers in these provinces pay for their own repairs. Today, more than 50 per cent of the collision repair work completed in Ontario is paid for by customers and not their insurers.

In Manitoba, more than half of the 1,248,679 claims filed between 2002 and 2006 were for under $816 – less than what many people in other jurisdictions pay for their deductible.

These claims would never be filed by drivers with high deductibles in other provinces. Customers would pay for the repair themselves – or worse, drive an unrepaired vehicle that might be unsafe.

Volume does not come at the expense of quality

While Manitobans use their auto insurance more frequently than drivers in any other province, the quality of coverage is not compromised to allow for this volume. The benefits provided by our Personal Injury Protection Plan are among the most comprehensive in North America. A suite of nine different kinds of coverage is available to all Manitobans if they are injured in an automobile crash anywhere in Canada or the United States. These benefits are indexed to inflation, and major concerns such as rehabilitation and medical expenses are not capped.

The plan is designed to provide the greatest benefit to those who need it most. Between 2002 and 2006 the 10 per cent of claimants with the most

severe injuries received 49 per cent of the $1.1 billion paid out in benefits. Of those, 97 claimants received an average of $1.7 million.

Extension coverage more popular than ever before

In 2006, sales of optional extension products topped the $100 million mark for the first time in our history. While Basic Autopac is mandatory, our choice of deductibles and third-party liability coverage is broad and affordable. More than 80 per cent of customers purchase these options so they can tailor coverage to their individual needs.

Claims satisfaction remains high

We take pride in being there when Manitobans need us most. We know that any collision, even a minor one, can be a very trying experience. That is why we strive to provide claims service that is friendly, fair and helpful.

We also work with Manitoba's repair industry to ensure that work to restore vehicles after a crash meets the highest international standards. Consistently, 90 per cent of our customers say they are satisfied with the repair service they've received, and the large majority say they are "very satisfied." About 90 per cent say the condition of the vehicle after repair is as good as, or even better than, its condition before the collision.

Our dedicated call centre provides Manitobans with nearly 80 hours of service a week to help our customers report a claim or find out anything else about our services. For the first time ever, the call centre took more than one million calls in 2006 while continuing to surpass industry standards for prompt, responsive service.

NURTURING NEW GENERATIONS OF RESPONSIBLE DRIVERS

Partnerships cultivate safe attitudes for life

"Working with Manitobans to reduce risk on the road" is the Mission of Manitoba Public Insurance, and those words inspire many of our most important programs and partnerships. Our goal is to instill safe driving attitudes for a lifetime.

Better tools and partnerships give new life to Driver Education

Of all our programs to promote road safety, the largest and best-known is Driver Education. It's become an important rite of passage for about 14,000 young people every year. In 2006 we strengthened this important learning experience in both the car and the classroom.

Parents have begun to play a more active role by logging at least 30 driving practice hours with the novice driver, over and above the student's in-car practice with the instructor. Parents also receive and sign a mid-term evaluation of the student's progress, plus a final evaluation by the instructor. All of these improvements motivate students to practice more and increase their skill, while helping parents understand whether the student is really ready to get behind the wheel.

During the year we also introduced a new textbook incorporating the Manitoba driver's handbook, plus an improved curriculum that covers Manitoba-specific conditions like winter driving and gravel roads. To provide more intensive instruction, maximum class size is now restricted and the number of classroom hours has increased from 27 to 34. A more comprehensive in-car manual emphasizes the perceptual and decision-making skills students need to drive defensively.

The revamped curriculum for Driver Education is encouraging parents to play a bigger role in the novice driver's development.

Through funding and staff support, we work with countless organizations to keep road safety on the minds of Manitobans. Here are just a few:

- CAA Manitoba
- Canadian Council of Motor Transport Administrators
- Citizens on Patrol Program (COPP)
- Coalition of Manitoba Motorcycle Groups
- CTV (The 60 Second Driver)
- Law enforcement agencies
- Manitoba Brain Injury Association (P.A.R.T.Y.)
- Manitoba Association of School Trustees (Safe Grad and Mock Collision)
- Manitoba Child Car Seat Coalition
- Manitoba Society of Seniors
- Manitoba Trucking Association
- Mothers Against Drunk Driving
- Operation Red Nose
- Safety Services Manitoba
- School Patrol Program
- SpeedWatch

Specialized safety training for Manitobans of all ages

Our partner for road safety training in the community is Safety Services Manitoba (SSM), previously known as the Manitoba Safety Council.

In 2006 our funding helped nearly 5,000 Manitobans take defensive, novice and responsible driving courses, which are open to all but sometimes mandatory for those involved in our Driver Improvement and Control Program. On our behalf, SSM also delivered training to more than 1,300 motorcyclists, 3,360 all-terrain vehicle owners and 1,740 snowmobile operators.

To help older Manitobans understand their limitations and adjust their driving habits, SSM took a record 630 seniors through the revamped Mature Driver Workshop.

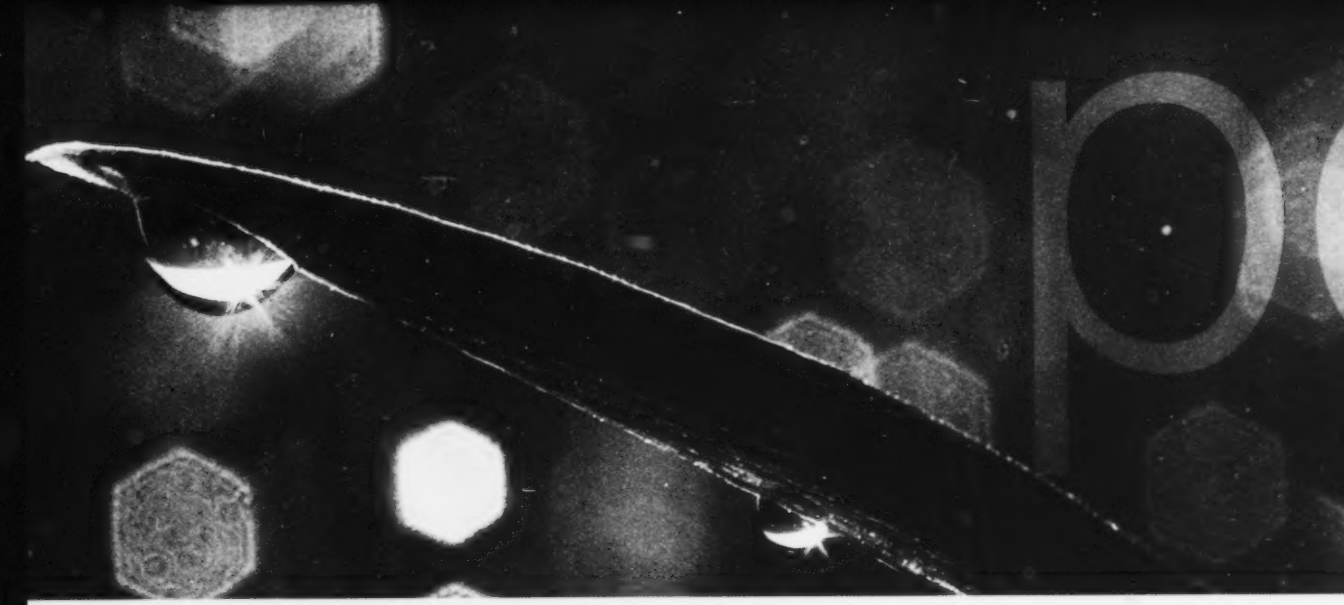
It's never too early to start teaching road safety

We make road safety fun by organizing children's bike rodeos, mini car towns and safety presentations in communities all across Manitoba. In 2006 our summer student program took these events on the road to 74 communities.

This year we also partnered with Freeze Frame, Winnipeg's international festival of children's film, to co-sponsor the Road Safety Video Challenge. Students were invited to produce videos illustrating the theme, "Watch Your Speed." The budding auteurs who won the challenge were from École Robert H. Smith School in Winnipeg.

When these youngsters are a little older, they'll have the opportunity to participate in other unique learning experiences that are organized or supported by Manitoba Public Insurance, such as Safe Grad, P.A.R.T.Y. and the Driver Ed Challenge.

This year the Road Safety Video Challenge invited young students to apply their creative skills to safety awareness.



HELPING MANITOBA STAY GREEN AND CLEAN

Respect for our world breeds a better bottom line

We're a perfect example of how doing the right thing for the environment can also make good business sense. For example, recycling is an important cost-containment strategy for the corporation, as well as a revenue source. Throughout our operations, we monitor our environmental impact to prevent costly problems before they develop.

We reduce, reuse and recycle to help keep Autopac rates low

When vehicles are written-off, we try not to send them to the scrapyard. Instead, we sell them to automobile parts recyclers and the public for salvage and repair – as long as they meet safety standards. In 2006 alone, we sold nearly 23,000 of these vehicles for either rebuilding or parts use, depending on the condition. Our popular weekly salvage vehicle auctions are a growing source of income that helps reduce the net cost of our operations.

Before total loss vehicles leave our compound, we act on opportunities to collect fuel and Freon for reuse, sale to a recycler or destruction.

We also encourage the use of quality recycled parts in claims repairs as a way of keeping costs down while keeping the quality of repairs high. Repair shops can source these parts more easily with the help of the corporation.

We divert more office waste

Waste audits at three Winnipeg operations show that the amount of waste generated by each employee has dropped from 165 kilograms in 2003 to 101 kilograms today. We are now capturing 80 per cent of recyclable material, compared to 60 per cent in 2003. Of the total waste we create, we are now diverting 52 per cent from landfills, compared to 38 per cent in 2003.

We're a perfect example of how doing the right thing for the environment can also make good business sense.

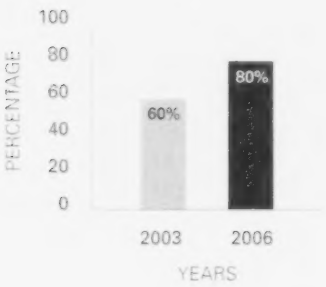
22,883	Total loss vehicles sold for salvage
88,602	Recycled parts used for repairs
13,547	Salvage vehicles from which Freon was collected by a recycling firm
20,719	Litres of fuel recovered
210	Tonnes of paper recycled
589	Computer components refurbished or recycled
9	Tonnes of carpet re-used or recycled

On the horizon: Less fuel and water consumption

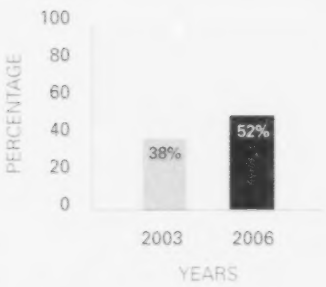
Water and fuel conservation is built into the design of all new construction projects. We're building on the success of our Beausejour and Winkler claim centres, which feature improvements like ground source heat pumps and motion-activated lighting. To establish the baseline for future energy efficiency progress, we're monitoring consumption of water, electricity and natural gas at our facilities.

In 2006 we also made the decision to pursue an E-85 program that will increase the use of ethanol in our corporate vehicles. About half of the vans in our corporate fleet are now capable of using 85 per cent ethanol fuel.

Captured recyclable material



Waste diverted from landfills



We collect and recycle a wide range of materials, from the paper in our offices to the Freon in the air conditioning systems of total loss vehicles. Our ability to divert waste from landfills is steadily increasing.

ADDING VALUE TO MANITOBA COMMUNITIES

About 75 per cent of Manitobans believe speeding is a serious problem. Through our SpeedWatch program, we help local volunteers educate drivers about the speed they are driving in relation to the posted limit.

Our success feeds our collective growth

No company is more committed to the future of this province than Manitoba Public Insurance. We live here, work here and raise our families here. We know that our shared success depends on the building of vibrant, healthy communities for generations to come. That's why we're proud of the role we play in helping this province achieve its full potential.

An important economic engine

In terms of economic spin-off alone, our operations have a profound impact on the Manitoba economy. In 2006 we generated more than $260 million in payments to repair shops, towing companies and medical practitioners, plus $56.6 million in broker commissions. We also purchased more than $450 million in local goods and services.

As one of Manitoba's largest employers, we provide employment for more than 1,700 Manitobans. They in turn generate more than $170,000 in annual contributions to important community organizations such as the United Way.

Helping citizens increase community safety

We are the major supporter of volunteer organizations such as the Citizens on Patrol Program (COPP), which mobilizes nearly 2,000 individuals to maintain the safety of their streets and back lanes. In 2006 COPP expanded from 64 communities to 78 communities, and volunteers contributed 30,000 hours of their time to be additional eyes and ears for local law enforcement.

We also organize the SpeedWatch program, which helps volunteers discourage speeding in their communities. Using our electronic reader boards,

Our support for volunteer organizations helps thousands of Manitobans increase the safety and potential of their neighbourhoods. These were just a few of our community partners in 2006:

- Manitoba School Patrol Program — 14,000 volunteer crossing guards
- Citizens on Patrol Program (COPP) — 1,800 volunteers logging 30,000 patrol hours
- SpeedWatch — 153 teams logging 728 hours to alert 115,000 vehicles
- Child Car Seat Coalition — 600 inspections
- Impaired Drivers Speakers Bureau — 233 school presentations

SpeedWatch volunteers alert drivers when they are going too fast and send a strong message that speeding is not tolerated in their neighbourhoods.

Through our community relations program, we support dozens of other grassroots groups in their local safety efforts.

Keeping our trucking industry moving

Our Special Risk Extension line insures most of the trucks that transport most of the goods in Manitoba. We provide the coverage they need at a fair price, filling an important niche in the local insurance market.

In the years ahead we'll also help the local industry by funding a new training program aimed at recruiting 750 new drivers.

The $5 million training initiative will address the serious shortage of Class 1 drivers, which could hinder the ability of trucking firms to thrive and grow in Manitoba. The program will be available to all Manitoba-based trucking companies that insure their fleets with Special Risk Extension.

Supporting community assets

In 2006 we purchased $83 million in municipal and school bonds, bringing our total investment in this province to more than $1 billion. Through these bonds, we have contributed to virtually every school and health care facility built in this province since our inception in 1972.

Through the purchase of municipal bonds, Manitoba Public Insurance plays a role in local community development. These bonds help municipal governments access needed capital for important projects such as new schools and health care facilities.

Our Vehicle Inspection Unit is the only portable inspection trailer provided by an insurance company. It provides on-site vehicle brake and suspension inspection service as a free service to our fleet customers.

FAIR PRACTICES OFFICE

The Fair Practices Office (FPO) is a means for customers and other interested parties to bring issues of a systemic nature to the attention of the corporation. The office was created in 1999 to encourage continuous improvement in all aspects of our public auto insurance system, particularly those aimed at ensuring fair and appropriate service to customers.

The FPO generally deals with concerns related to corporate policy, or issues involving complex or unusual situations where the correct interpretation of policy may be unclear. The office may initiate its own investigations or respond to inquiries referred by others. It is free to scrutinize the corporation's policies and procedures in an objective and constructive manner.

The office reports its observations directly to the President and Chief Executive Officer. It can recommend review of an issue and alerts senior management of any systemic concerns or policies that should be addressed.

Many of these matters are referred to the FPO by the provincial Ombudsman. Inquiries may also be referred by the Customer Relations unit, which deals primarily with individual customers, staff and the office of the minister responsible for Manitoba Public Insurance.

When Customer Relations requests a separate review, the FPO takes a fresh look at the situation to ensure that all information and details have been considered.

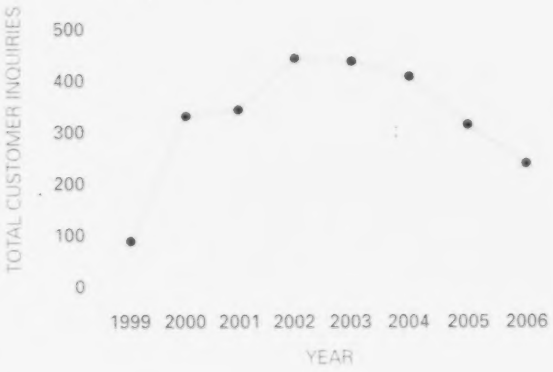
The number of inquiries handled by the FPO has declined in recent years – due in part to improved processes for escalating concerns and identifying duplicate inquiries. As a result, more individual customer concerns have been successfully resolved without the involvement of the FPO.

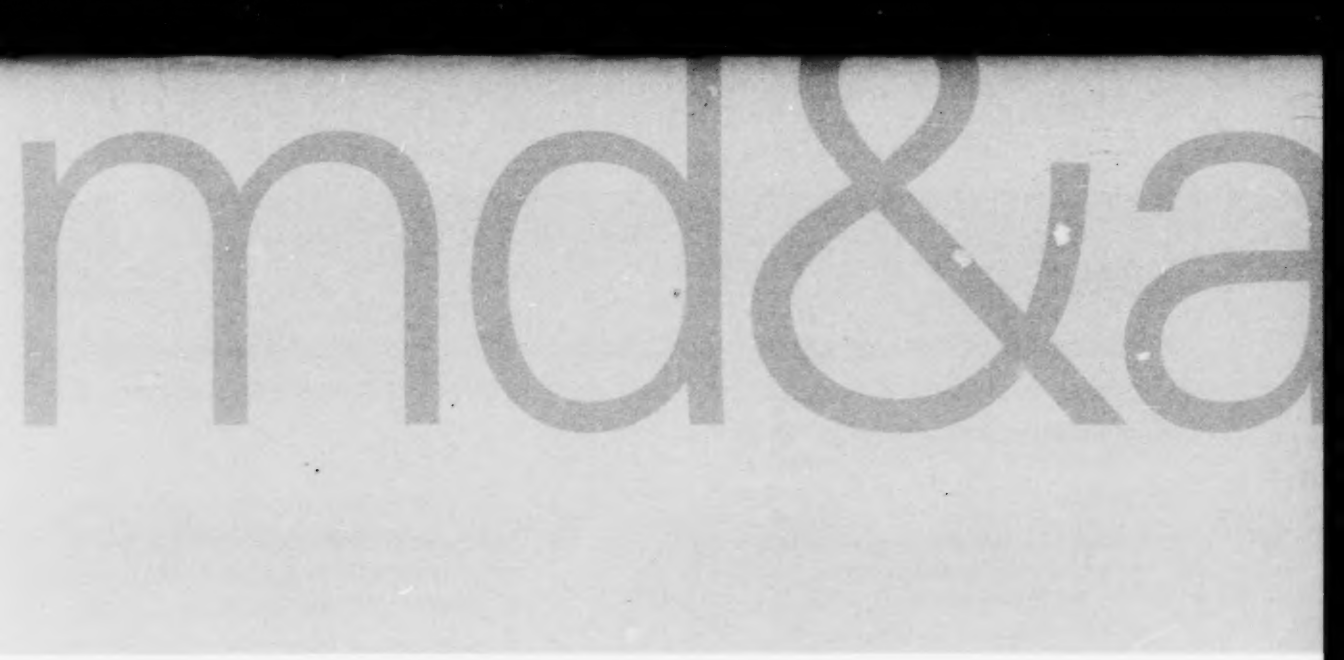
2006 results

In the 2006/07 fiscal year, the FPO received 258 documented customer inquiries from the following referral sources:

- Customer 152
- Formal Ombudsman inquiries 27
- Informal Ombudsman inquiries 65
- Internal referrals 14

The FPO recommended the corporation revise its decision in 24 situations, or about nine per cent of the cases it reviewed. In 91 per cent of the situations that were examined (234 of 258), the FPO's findings supported the original decision.





MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE

Corporate Vision

Manitoba Public Insurance will be a leader in automobile insurance and driver services, providing Manitobans with guaranteed access to superior products, coverage and value. We will anticipate and meet the evolving needs of Manitobans. We are dedicated to offering province-wide accessibility and, in co-operation with our business partners, will perform at the highest attainable levels of economy, efficiency and effectiveness.

Manitoba Public Insurance will make our roadways and communities safer by enforcing standards for drivers and vehicles, by raising awareness of the inherent risk of driving and by investing in lasting solutions. We will develop educational programs and controls that help and encourage Manitobans to acquire the skills to avoid collisions.

Our people will deliver knowledgeable service with care, efficiency and justifiable pride, and will be appropriately recognized for their contributions in helping the corporation achieve its goals. Manitoba Public Insurance will be one of the best and most inclusive places in the province to work and pursue a career, where people will deliver knowledgeable and caring services in new and innovative ways.

We will ensure Manitobans understand and support the unique contribution Manitoba Public Insurance makes to the province of Manitoba.

Corporate Goals, Measures and Strategies

Manitoba Public Insurance strives to achieve seven broad Corporate Goals. Expected outcomes are measured and five-year key strategies have been developed to reflect and address the current realities of the corporation's marketplace and public environment, and to meet various stakeholder expectations and obligations. Several of the strategies, while presented in support of a particular Corporate Goal, also support other Corporate Goals. Manitoba Public Insurance's Corporate Goals, Measures and Strategies are as follows:

GOAL 1

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

Strategies

1.1 Basic automobile insurance – to ensure that the basic, compulsory program meets the needs of Manitoba motorists for affordable, accessible and comprehensive coverage.

1.2 To keep all controllable costs at their lowest possible level through continuous focus on savings in claims, service delivery and operating costs.

1.3 To improve the efficiency and convenience of Manitoba Public Insurance's distribution and service network by reducing or eliminating low value transactions.

1.4 To the maximum extent possible, leverage synergies offered by strategic partners that are mutually beneficial, improve customer service and reduce costs.

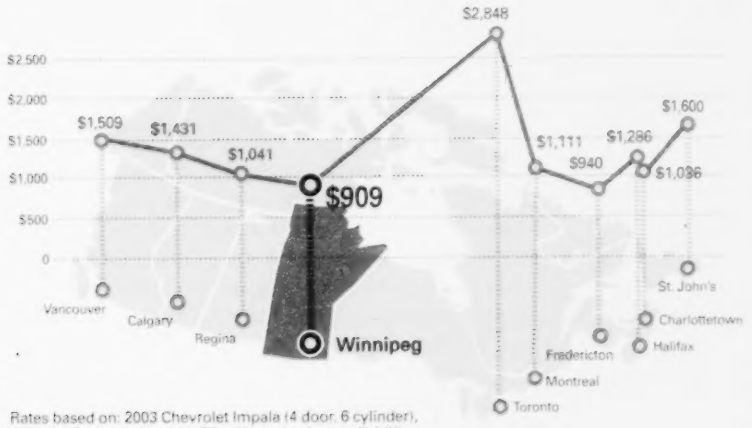
1.5 To increase the percentage of revenue derived from investment income while remaining within acceptable investment risk profiles.

1.6 To create and maintain an information technology environment that is efficient, adaptable, expandable and current to capitalize on opportunities. We will use economies of scale, new technology and existing capabilities to improve customer service or reduce costs.

1.7 We will develop systems that leverage technologies and processes across divisions providing the greatest corporate benefit possible.

1.8 To maintain the Basic Insurance Rate Stabilization Reserve to protect vehicle owners from rate increases caused by unexpected events and losses resulting from non-recurring events or factors.

Measure



Rates based on: 2003 Chevrolet Impala (4 door, 6 cylinder), $500 All Perils deductible, $2 million third-party liability

Among the lowest rates in Canada

GOAL 2

The Basic plan will return at least 85 per cent of premium revenue to Manitobans in the form of claims benefits.

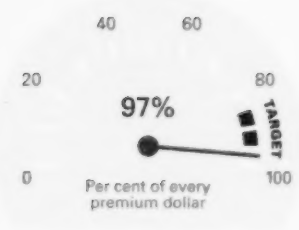
Strategies

2.1 To maintain operating costs at a maximum of 50 per cent of industry average.

2.2 To break even over the long term on Basic automobile insurance.

2.3 To use investment income to reduce the average premium paid by Manitobans.

Measure



Premium returned for each dollar earned

GOAL 3

Manitoba Public Insurance will be a leader in automobile insurance and vehicle and driver licensing, providing Manitobans with superior products, coverage and service.

Strategies

3.1 To ensure Manitobans receive understandable information on Manitoba Public Insurance products, entitlements, services and service standards. The corporation will adopt a strategy that ensures messages reach the appropriate target groups at appropriate times.

3.2 Autopac Extension – to be profitable by providing products and services that continue to recognize the changing needs of our customers and continue to successfully achieve high levels of customer satisfaction through strategic pricing, accessibility, and convenience. To mitigate risk through appropriate product design and automated underwriting techniques.

3.3 Special Risk Extension – to be profitable by responding to the variable and specialized needs of our commercial customers and providing personalized auto related insurance products that cannot be met by the universal compulsory program or by the automobile extension program. To partner with customers in pursuing fleet safety and loss prevention initiatives. To provide Manitobans with a stable market choice that promotes long-term partnerships.

3.4 To leverage the existing service delivery model to meet customer demands, focus the number of interactions with customers and increase accessibility and convenience.

3.5 To improve the service relationship between drivers and vehicle owners and the corporation by modernizing business processes and ensuring all aspects of driver risk rating are consistent, clear and fair.

Measure

Corporate Performance Index

GOAL 4

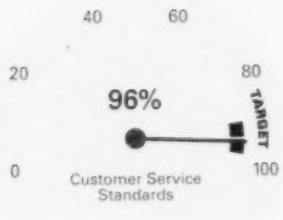
Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Manitoba Public Insurance will meet customer service standards that are based on customer expectations.

Strategies

4.1 To create, publish and comply with comprehensive customer service standards for ourselves, brokers, business associates and service providers who are in contact with our customers.

4.2 To promptly address and respond to legitimate concerns expressed by our customers. To provide internal and external appeal mechanisms.

Measures



Overall, how often we meet / exceed standards

Physical Damage Claims

Bodily Injury Claims

Driver and Vehicle Licensing

Insurance Operations Policyholder Transactions

GOAL 5

Retained Earnings and Rate Stabilization Reserve will be maintained within established target levels.

Strategies

5.1 To maintain financial stability by setting appropriate premium rates, strengthening investment income and maintaining retained earnings and Rate Stabilization Reserve within established target levels.

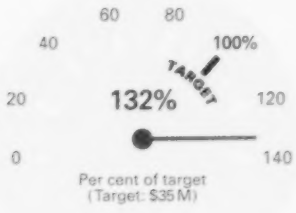
5.2 To continuously identify and assess the likelihood and magnitude of potential risks and act explicitly to avoid and mitigate such risks.

5.3 To develop business strategies to ensure competitive lines of business are profitable and contribute to the benefit of all Manitobans.

5.4 To assess corporate financial risk in keeping with industry standards and establish appropriate retained earnings and Rate Stabilization Reserve target levels for each line of business.

Measures

Basic Rate Stabilization Reserve



Extension Retained Earnings

SRE Retained Earnings

GOAL 6

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

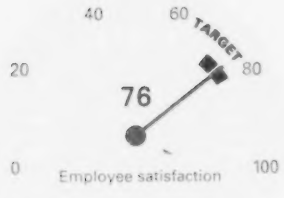
Strategies

6.1 To foster a culture accepting of diversity. To attract, recruit, train, and motivate target group candidates throughout the corporation. To build positive relationships within the Aboriginal community and to encourage employee involvement in this endeavour. To remove systemic barriers that might impede our progress toward these goals.

6.2 To continue to respond to the issues raised by our employees. Particular emphasis will be given to providing clear direction and fostering a management style that reflects our values and supports employee commitment to the organization.

6.3 To use change management strategies that ensure communication, education and employee training support and facilitate business change.

6.4 To ensure employees are provided with effective, informative and timely two-way communication.



Level of employee satisfaction

GOAL 7

Manitoba Public Insurance will lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and their neighbourhoods. Manitobans will recognize the corporation is living its mission.

Strategies

7.1 To ensure Manitobans meet and continue to maintain established standards of knowledge, skill and behaviour to gain access to Manitoba roads.

7.2 To ensure vehicles and vehicle repairs meet provincial standards of mechanical soundness.

7.3 To develop strategies and initiatives that support continuous vehicle and driver performance monitoring to ensure Manitoba roads remain safe for everyone.

7.4 To develop a clear and understandable method to reward good drivers and ensure that individuals pay insurance rates that reflect the risk they represent on the road.

7.5 To develop and manage education and awareness initiatives based on factors that contribute to automobile accidents and the actions Manitobans can take to prevent them.

7.6 To partner with community groups across Manitoba supporting community-based initiatives that increase road safety awareness and education opportunities.

Measure

Public support for road safety

RESULTS OF OPERATIONS

Current Year and Last Year

CORPORATE

An expanding economy contributed to greater revenues from the number and value of insured vehicles in Manitoba during 2006/07, increasing total earned revenues by 4.8 per cent to $837.7 million.

Lower investment income and higher claims expenses resulted in net income from annual operations of $68.4 million – $37.4 million less than the previous year.

Earned investment income decreased $46.1 million, or 27.7 per cent compared to last year, to $120.4 million. Gains from the corporation's equity portfolio were $31.1 million compared to $69.8 million last year. This reflects a weaker investment market when compared to the previous 12 month period. Gains from the sale of bonds were $21.6 million compared to $23.1 million last year.

Claims costs increased by $24.5 million as investments in loss prevention and road safety nearly doubled to $23.5 million and claims incurred rose by $11.8 million.

The corporation's current year financial results were also impacted by a 10 per cent rebate on 2005/06 Basic Autopac premiums totaling $60.0 million ordered by the Public Utilities Board (PUB).

The corporation's financial mandate is to break even over the long term. During the reporting period, for every dollar of revenue earned, the corporation provided Manitobans with 87 cents in claims benefits. Broker commissions and premium taxes accounted for 9 cents of every dollar of revenue earned while other operating expenses including regulatory and appeal expenses cost 10 cents. These expenses were offset by investment income equal to about 14 cents per dollar of revenue. After the premium rebate, the corporation's net income was about 1 cent for every dollar of revenue earned during the year.

Total earned revenues for the year were up $38.3 million to $837.7 million. Revenues included a $20.5 million recovery from the Province of Manitoba for funding driver and vehicle operations during the current year. This transfer is $0.5 million lower than last year due to a one-time hold-back by the Province to defray their costs associated with aligning the renewal of driver's licences with motor vehicle registrations.

WHERE YOUR PREMIUM DOLLAR HAS GONE

Total Claims Costs	Operating & Regulatory / Appeal Expenses	Broker Commissions	Premium Taxes
87¢	**10¢**	**6¢**	**3¢**

Total Earned Revenues		Total Claims and Expenses		Loss		Investment Income		Net Income
$1.00	–	**$1.06**	=	**(6) ¢**	+	**14¢**	=	**8¢**

–

Premium Rebate
7¢

=

Net Income
after Premium Rebate
1¢

Development on prior years claims was better than expected. As a result, claims incurred were decreased by $60.6 million for the year. In 2005/06 development on prior years claims was better than expected by $11.1 million.

The average Autopac (Basic and Extension) cost per claim decreased slightly by $65 to $2,214. The number of claims filed increased by 6.3 per cent to 269,135.

Total corporate expenses increased by $5.1 million to $158.0 million as the corporation continued to integrate driver and vehicle licensing operations and invest in customer service improvements made possible by the October 2004 merger. Driver and vehicle licensing expenses for the year were $31.0 million compared to $27.0 million last year. The increase in expenses was primarily due to implementation of the integrated driver and vehicle licensing system and higher broker commissions.

Net income from annual operations of $47.8 million was more than 44 per cent lower than 2005/06 net income of $85.7 million.

Total earned revenues increased by $29.2 million to $661.9 million, as the number of policies in force increased to 875,459 from 857,018.

Total claim costs – including claims payouts and handling, loss prevention and road safety expenses – increased $27.1 million to $626.3 million. The total number of claims filed increased by 16,055 to 269,135.

Personal Injury Protection Plan (PIPP) claims costs for injuries occurring in 2006/07 increased compared to the previous year. However, this increase was offset by a reduction in the actuarial estimates of unpaid claims costs for prior years. The net effect is a decrease of $25.2 million compared to last year.

Physical damage claims costs increased by $39.1 million to $344.4 million. There were 10,317 more crashes this year and the average cost per claim increased 4.3 per cent, boosting collision costs by $27.1 million. In all there were 132,788 collision claims filed with an average value of $1,765. Comprehensive costs – which include primarily glass, weather-related, theft and attempted theft claims incurred – rose by $7.1 million. While glass claims incurred remained constant, weather-related claims incurred increased by $2.5 million compared to last year. Theft claims incurred increased by $2.1 million or 6.6 per cent and attempted theft claims incurred rose by $4.8 million or 64.3 per cent. Partial theft claims incurred, however, decreased by 12.7 per cent or $0.7 million.

Type of Claim	2007				
Chronic pain	**59**	61	46	66	73
Fatal	**161**	144	157	139	142
Brain damage	**74**	80	69	97	63
Quadriplegic	**1**	3	4	3	3
Paraplegic	**14**	9	5	8	7
Broken bones	**837**	728	703	811	640
Whiplash	**14,508**	12,725	12,490	12,249	9,425
Bruising/Lacerations	**610**	539	692	871	636
Other	**1,179**	1,531	1,510	1,449	4,432
Total	**17,443**	15,820	15,676	15,693	15,421

Basic's share of the corporate investment income decreased by $41.0 million to $104.0 million. This decrease reflects lower gains realized from the corporation's equity and bond portfolios.

Years Ended February 28/29					
Basic Autopac Five Year Statistics ($000)	2007	2006	2005	2004	2003
Premiums Written	**654,800**	631,693	605,939	558,378	537,235
Claims Incurred	**534,860**	520,962	457,221	513,548	467,715
Claims Expense	**68,965**	67,169	65,270	67,043	58,944
Other Expenses	**114,330**	103,923	92,243	87,768	83,849
Net Income (Loss)	**47,783**	85,703	59,943	3,358	(30,135)

EXTENSION

Extension net income of $14.1 million was offset by a $10.9 million loss resulting from the operation of driver and vehicle licensing functions. Operations reported net income of $3.2 million, $5.9 million less than reported last year.

During 2006/07, the corporation incurred expenses of $31.0 million to operate driver and vehicle licensing services, integrate administrative functions and prepare for customer service improvements. A $20.5 million recovery from the Province of Manitoba was received to partially offset these costs.

Earned revenues from the sale of extension products increased by $8.0 million to $99.6 million. All products contributed to the increase. Total claims costs – including claims benefits, claims handling, loss prevention and road safety expenses – increased $5.2 million to $69.8 million. Physical damage claims costs increased by $3.3 million, exhibiting the same trends as the Basic line of business. Injury claims increased by $1.9 million due primarily to increased severity. Total expenses increased by $1.5 million from last year.

Lower gains on the corporation's equity and bond portfolios decreased Extension's share of the corporate investment income by $2.5 million to $7.5 million.

Years Ended February 28/29					
Extension Five Year Statistics ($000)	2007	2006	2005	2004	2003
Premiums Written	**100,754**	92,205	85,751	73,182	61,494
Claims Incurred	**60,925**	55,786	53,449	46,425	38,677
Claims Expense	**7,868**	7,854	7,120	6,255	5,522
Other Expenses	**55,144***	49,753*	29,377*	18,015	15,241
Net Income	**3,235**	9,168	7,129	8,001	3,292

* Includes expenses related to driver and vehicle licensing functions, which were transferred to Manitoba Public Insurance from the Manitoba government in October 2004.

SPECIAL RISK EXTENSION

Net income increased $6.4 million to $17.4 million.

Total claim costs, including claims expenses, decreased by $7.8 million to $35.6 million. While claims frequency remained constant, lower severity reduced physical damage claims costs by $3.6 million and liability claims by $3.7 million. Reduced claims expenses of $0.5 million also contributed to the total reduction in claims costs.

Lower gains on the corporation's equity and bond portfolios decreased Special Risk Extension's share of the corporate investment income by $2.3 million to $9.3 million.

Years Ended February 28/29					
SRE Five Year Statistics ($000)	2007	2006	2005	2004	2003
Premiums Written	**56,824**	55,418	53,436	48,705	42,742
Claims Incurred	**32,585**	39,842	31,074	18,404	28,110
Claims Expense	**3,017**	3,563	2,678	2,602	2,789
Other Expenses	**12,016**	11,315	11,863	11,019	9,833
Net Income	**17,370**	10,938	12,449	25,904	4,238

Investment Income

Total investment income declined $46.7 million to $129.0 million. Gains realized from the sale of equities for the current year totaled $31.1 million – less than half the $69.8 million realized last year. Gains realized from the sale of bonds for the current year totaled $21.6 million – $1.5 million less than last year.

Manitoba Public Insurance invests money it sets aside for future claim payments and other liabilities. Investment income reduces rates that would otherwise be payable by policyholders. Including the gains realized on the sale of equities and bonds, the revenue earned from investment income was enough to reduce the average premium in 2006/07 by $127 compared to a reduction in the previous year of $181.

The total book value of the corporation's investment portfolio was $2.0 billion as of February 28, 2007, up from $1.9 billion a year earlier. The investment portfolio is primarily invested in three types of bonds:

- Marketable bonds, mainly issued by the governments of Manitoba and other provinces, including floating rate notes (41.2 per cent of the total portfolio market value);
- Non-marketable bonds issued by Manitoba municipalities, school divisions and health care facilities and purchased through the Manitoba Department of Finance (20.1 per cent); and
- Real return bonds providing returns linked to the rate of inflation and issued by the Government of Canada (13.0 per cent).

Manitoba Public Insurance contracts five external investment managers to administer its Canadian equity portfolio, which represents 16.7 per cent of the total investment portfolio. The corporation also has 5.8 per cent of its portfolio in United States equities managed by two external investment managers and an equity-linked note. Through the Manitoba Department of Finance, the corporation uses forward contracts to offset the effect of currency movement changes on its U.S. dollar denominated assets. Short-term investments account for 2.8 per cent of the investment fund and venture capital and private equity investments represent 0.4 per cent of the portfolio's carrying value.

The total portfolio, on a market value basis, returned 6.3 per cent during the fiscal year. Marketable bonds returned 5.4 per cent, non-marketable bonds 5.5 per cent and floating rate notes 4.4 per cent, and the real return bonds experienced a negative return of 0.9 per cent. Canadian equities returned 14.0 per cent over the same time period, and U.S. equities 12.6 per cent, including the currency hedge. Over a four year period, the investment portfolio has achieved an annualized return of 8.7 per cent. Total investment income for the year was $129.0 million, including bond interest payments, dividends and realized gains on sales of bonds and equities.

Retained Earnings

Corporate retained earnings are comprised of the accumulation of net income or losses from inception to February 28, 2007 for the Basic, Extension and Special Risk Extension (SRE) lines of business.

The corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business to maintain financial stability. In addition specific levels of retained earnings have been appropriated to support a major corporate initiative that is designed to protect at-risk vehicles from theft.

The corporation supports the use of the Minimum Capital Test (MCT) as a risk-based method developed by the Office of the Superintendent of Financial Institutions (OSFI) to assess the corporation's financial risk and determine the capital adequacy of reserves held in retained earnings. This methodology assigns risk factors to the company's assets and policy liabilities. It is used to determine whether federally regulated property and casualty insurance companies are maintaining adequate capital to absorb unexpected losses. OSFI requires these regulated companies to carry a minimum of 150 per cent of the capital required by the MCT. Most federally regulated property and casualty insurance companies carry significant retained earnings over the minimum required by OSFI (2006 average was 240 per cent of MCT).

The corporation's external actuary annually calculates the MCT by line of business to assist the Board of Directors in reviewing and establishing appropriate target levels. A discussion of the relevant target levels and issues by line of business follows.

BASIC INSURANCE

Basic's retained earnings are comprised of the Rate Stabilization Reserve (RSR) and the Immobilizer Incentive Fund (IIF). The corporation's Board of Directors' current target level range is 50 per cent to 100 per cent of MCT or $107 million to $214 million. The Public Utilities Board of Manitoba (PUB) by their Order 156/06 has rejected MCT as the methodology for reviewing and establishing the Basic RSR for rate setting purposes. Their target as stated in their order is $69 million to $105 million and includes the IIF fund for purposes of assessing RSR adequacy. The PUB Order directed the corporation to pay a 10 per cent rebate at an estimated cost of $60.0 million to bring the RSR closer to their target range.

As at February 28, 2007, Basic retained earnings totaled $161.3 million ($173.1 million previous year). Of that total, RSR made up $128.1 million ($136.1 million previous year), which is net of the $60.0 million rebate ordered by the PUB, and the IIF totaled $33.2 million ($37.1 million previous year).

Two provincial monopoly automobile insurers in Canada – the Insurance Corporation of British Columbia (ICBC) and the Saskatchewan Government Insurance (SGI) – both use MCT as the basis for setting their retained earnings targets for their Basic lines of business. ICBC has set a target of 100 per cent of MCT and SGI has set a target range of 100 per cent to 125 per cent of MCT.

The corporation's external actuary, based on his report for the 2006 Basic insurance Dynamic Capital Adequacy Test (DCAT), identifies four plausible scenarios where Basic retained earnings become negative and has concluded that the future financial condition of this line of business is not satisfactory.

The corporation has significant concerns that the future financial strength of the Basic insurance plan has been compromised by the PUB's actions with respect to the RSR target. The corporation's ability to provide Manitobans with continued rate stability has been weakened by the PUB's actions.

Funding for the RSR is derived from the annual operations of the Basic insurance plan. In prior years retained earnings exceeding the targets set for the Extension and SRE lines of business were transferred to the Basic RSR as additional funding to achieve the target level set by the corporation's Board. These transfers have ceased with the order from the PUB that limits the RSR to levels that are fully funded to their target levels.

In 2005, the corporation established the IIF by appropriating $40 million from Basic RSR. In 2006 an additional $10 million was appropriated. The fund provides financial assistance for vehicle owners to install electronic immobilizers and covers the administrative costs of the program. Activity during the year reduced the reserve to $33.2 million. Additional information is provided in the Notes to Financial Statements (note 18).

EXTENSION INSURANCE

The corporation's Board of Directors' current target level for Extension retained earnings is 200 per cent of MCT. Based on this target the corporation's external actuary has concluded, in the 2006 Extension DCAT report, that the future financial condition of this line of business is satisfactory.

As at February 28, 2007, the retained earnings balance was $46.4 million compared to $43.1 million the previous year. This balance is $11.4 million higher than the current target level of $35.0 million.

SPECIAL RISK EXTENSION (SRE)

The corporation's Board of Directors' current target level for SRE retained earnings is 200 per cent of MCT. Based on this target the corporation's external actuary has concluded, in the 2006 SRE DCAT report, that the future financial condition of this line of business is satisfactory.

As at February 28, 2007, the retained earnings balance was $64.6 million compared to $47.2 million the previous year. This balance is $27.6 million higher than the current target level of $37.0 million.

RISK MANAGEMENT

Unpaid Claims

Manitoba Public Insurance maintains provisions for unpaid claims on a discounted basis to cover its future claims commitments. The corporation makes provisions for future development on claims that have been made, and an estimate for those that may have occurred but have not yet been reported.

In the case of major injuries, only a small portion of the total benefit is paid in the first year. As time passes and more information is available, the estimates are revised to reflect the most current forecast of claims costs.

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves annually. Adjustments, if needed, are calculated by the corporation's actuary. An independent assessment of the reserves is also conducted by the corporation's external actuary. The external auditor also reviews the adequacy of the reserves as part of its annual audit of the corporation's financial results.

This process has demonstrated a growing potential for volatility in financial results from year to year. If the current $1.4 billion unpaid claims provision increased by five per cent, the impact on the corporation's annual bottom line that year could be approximately $70.0 million – about $25.0 million more than the risk of the same shift five years ago, when unpaid claims provisions totaled $0.9 billion. By fiscal year ending February 29, 2012, unpaid claims provisions are expected to total $2.2 billion and a five percentage point shift could have a $110.0 million negative impact on the corporation.

Liquidity

Cash and cash equivalents are essential components of the corporation's financial liquidity management. Cash flows are monitored to ensure sufficient resources are available to meet our current operating requirements. Excess funds not needed to meet current operating requirements are invested in long-term instruments to generate additional revenue for future obligations.

Cash flows provided by operating activities of $123.1 million decreased from the $236.4 million reported last year, due mainly to lower net income from annual operations and the payment of last year's $58.0 million premium rebate paid to policyholders during the current fiscal year. Cash flows used for investing activities decreased $48.3 million to $156.4 million. A breakdown of the corporation's investment portfolio is included in the Notes to Financial Statements (note 4).

Investments

The Manitoba Department of Finance conducts all treasury and fixed income transactions on behalf of the corporation in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Investment Committee, as appointed by the Board of Directors, oversees the corporation's investment policy, which is aimed at covering corporate liabilities and generating income that is used to reduce policyholder premiums. The investment policy ensures assets are managed in a manner that will maximize return while minimizing risk in an overall portfolio context. Assets are diversified among various investment instruments such as short-term holdings, bonds and equities.

The Department of Finance contracts five external investment managers to administer the corporation's Canadian equity portfolio and two external managers to manage United States equities and an equity-linked note. Through the Department, the corporation also uses forward contracts to offset the impact of currency movement in U.S. dollar denominated assets. A working group comprising the Department of Finance and Manitoba Public Insurance officials oversees the day-to-day operations of the portfolio.

Driver and Vehicle Licensing

In 2004 responsibility for driver and vehicle licensing functions was transferred to the corporation from the Manitoba government. The resulting increase in the corporation's operating costs is offset in part by $21.0 million in annual funding from the Province of Manitoba, provided in equal monthly installments.

As part of the customer service improvements, in November 2006, the corporation implemented a new service delivery model that brought the licensing and insurance systems and processes together. This has resulted in customers being able to renew driver's licences at all Autopac brokers throughout the province. Additionally, the renewal dates for Autopac and licences have begun to move toward full alignment, enabling customers to renew both at the same time.

These changes also resulted in a one-time $0.5 million reduction in funding from the Province of Manitoba in 2006/07 to defray the costs associated with aligning the renewal of driver's licences with vehicle registrations. For the reporting period, the provincial transfer was $20.5 million.

Overall, the 2006/07 operating costs for driver and vehicle licensing totaled $31.4 million, resulting in a shortfall of $10.9 million, an increase from a shortfall of $6.1 million in 2005/06 and up from the $9.8 million shortfall projected for the fiscal year.

The integration provides the foundation for important customer service improvements with the potential to increase operating efficiency. Over time, the corporation expects these initiatives to reduce costs by about $5.0 million annually.

The new service delivery model provides greater customer convenience and operational efficiency by combining the renewal processes for driver's licences and Autopac transactions. As the two types of transactions moved to the same technical platform, the corporation also expanded the service network for driver's licence renewals to include all Autopac brokers in the province. This expansion increased the number of licence renewal locations by 70 per cent across the province. In Winnipeg, the number of service locations immediately jumped from six to more than 150.

To maximize the benefits of this change, the corporation also began to align the renewal dates for driver's licences and Autopac policies. By the end of 2007, every customer will have one renewal date for his or her Autopac policy and driver's licence, enabling both transactions to be done at the same time and the same place. Instead of all licences expiring on the last day of the month, expiry dates will be staggered throughout the month. This change will eliminate the traditional month-end lineups at licence renewal locations.

The corporation also introduced new technology for production of the Manitoba driver's licence. In addition to improving the quality of the photo card, the new equipment replaced aging, outdated technology, bringing greater reliability and security to the system.

Customers reported a high level of satisfaction with the new model. By the end of 2006/07, about 95 per cent of customers surveyed said they were satisfied or very satisfied with the service they received. About 90 per cent said they liked having the choice of renewing their licence at a broker's office and the convenience of renewing their Autopac and driver's licence at the same time.

Road Safety / Loss Prevention

Nine out of 10 Manitobans believe that the corporation should play an important role in a province-wide effort to make our roadways safer for everyone.

The corporation understands that traditional road safety models require co-ordinated educational, enforcement and engineering efforts to have a maximum impact. Manitoba Public Insurance cannot be responsible for the level or quality of enforcement or engineering on Manitoba roadways so its efforts to date have been focused on public education, awareness and skills development. To maximize its impact, the corporation co-ordinates its efforts with road safety minded organizations throughout the province. It is an approach supported by nearly nine out of 10 Manitobans.

The corporation supports Transport Canada's 2010 vision, an initiative that aims to make Canada's roads the safest in the world by the beginning of the next decade. The corporation is joined in this vision by the Government of Canada, Royal Canadian Mounted Police and Safety Services Manitoba.

Vision 2010 focuses on raising public awareness of road safety issues, strengthening enforcement, improving national road safety data quality, and improving communication, co-operation and collaboration among road safety agencies.

The corporation is pleased that, in the two highest level measures – fatalities and serious injuries – Manitoba has made significant progress against 2010 targets, achieving reductions greater than the national average in both areas.

The greatest progress towards 2010 targets in Manitoba has been achieved on rural roadways and among young drivers, where fatalities and serious injuries have declined by more than 30 per cent.

Overall, Manitoba is close to achieving six of the 18 measures tracked by Road Safety Vision 2010 and is on track to achieve three additional targets by the reporting period.

The corporation also recognizes that Manitoba continues to face a number of significant road safety challenges. For example, the number of Manitobans killed because they are unbelted is not declining fast enough to achieve the 2010 target.

In addition, the number of Manitobans killed in alcohol-related crashes has increased when compared to baseline measures, as have the number of Manitobans killed and seriously injured in speed-related crashes.

Manitoba Public Insurance continues to monitor these results and adjust its community mobilization programs and educational programs to respond to the changing landscape.

Auto Theft Strategies

The corporation's battle against auto theft took a small step backward during the reporting period. Average monthly theft increases of 19.6 per cent in each of the first six months could not be offset by reductions in the second half of the year. Overall, on a calendar year basis, total thefts in Winnipeg increased 4.9 per cent and province-wide by 5.5 per cent.

However, the corporation continues to see signs that its approach is working and will achieve its business objectives over the long term. On a calendar year basis, total thefts in Winnipeg have been reduced by 12.0 per cent since 2004 and province-wide, total thefts are down by 11.2 per cent.

On a fiscal year basis, total theft costs increased by $2.1 million to $33.4 million while the cost of attempted theft claims increased $4.8 million to $12.2 million. Despite these results, the number of Manitobans who have taken action to protect their vehicles is increasing and measures to hold auto thieves accountable are starting to show signs of success.

The corporation continues to believe that auto theft is a crime of convenience and that the best defence is to make vehicles impossible to steal. Electronic immobilizers that meet the Canadian standard offer the very best auto theft protection by electronically shutting down a vehicle's fuel pump, electronic ignition and starter. While some manufacturers have been installing these immobilizers on vehicles manufactured after 1999, the federal government will not make them mandatory in all new vehicles until September 2007.

The corporation's strategy has been to protect older vehicles with after-market immobilizers that meet the national standard. In June 2005, the corporation announced it was creating an Immobilizer Incentive Fund to provide all Manitobans with financial incentives to install electronic immobilizers in their vehicles. In April 2006, the corporation announced it would provide vehicles most targeted by auto thieves with immobilizers at no cost and provide a one-stop process for arranging installation. These Most at Risk vehicles represent just 10 per cent of the Manitoba vehicle fleet but account for about 60 per cent of thefts.

Since then, more than 62,000 vehicle owners have signed up for the program. Most encouraging is that about 85 per cent of these participants own vehicles that are at high risk of theft. The corporation recognized the evolving nature of Manitoba's auto theft problem during 2006/07 by expanding its Most at Risk list to include any vehicle with a greater than one in 100 chance of being stolen. This increased the potential pool of vehicles that qualify for a free standard immobilizer installation by 52,000 vehicles to 122,000.

In July 2005, only 17.4 per cent of the Manitoba automobile fleet was protected with electronic immobilizers. By the end of this reporting period, 37.9 per cent of the fleet was protected. The corporation expects that more than half the fleet will be protected within the year.

The corporation also believes that the situation has been stabilized because programs to intensively supervise and monitor repeat young offenders are beginning to demonstrate their intended impact.

In March 2005, the corporation agreed to provide $1.8 million over two years to fund the Winnipeg Auto Theft Suppression Strategy (WATSS), a probationary

effort to monitor youth who are active in auto theft and at highest risk of continuing to steal vehicles. WATSS combines intensive curfew checks and compliance monitoring, a zero tolerance approach to condition breaches, consistent recommendations from Crown prosecutors for custodial sentencing and intensive support and supervision programming for lower risk youth.

Operational issues that hampered WATSS in 2006 have been largely overcome, and the number of thefts in Winnipeg declined in six of the last seven months of the fiscal year. During this period, WATSS officials provided 94,321 checks on auto thieves, including 22,908 curfew checks, 7,204 in person contacts and 64,209 other contacts.

During the last 10 months of the reporting period, there were 964 arrests made in connection with auto theft and 3,417 charges laid.

The corporation expected the program would achieve savings of $6 for every $1 invested. The corporation's 2005 and 2006 theft forecasts filed with the Public Utilities Board compared to actual results show aggregate savings over the two years totaled $12.6 million. On that basis, funding for WATSS was extended into 2007.

Manitoba Public Insurance remains committed to its multi-pronged approach to auto theft. It will continue to evolve to meet emerging challenges with the goal of achieving its business objectives and improving community safety throughout Manitoba.

OUTLOOK

The corporation remains committed to achieving its seven Corporate Goals. Actual results are monitored quarterly by the Board of Directors and corrective action is taken when necessary to ensure that expected outcomes are realized.

Under *The Crown Corporations Public Review and Accountability Act*, Manitoba Public Insurance is required to submit Basic Autopac rates to the Public Utilities Board (PUB) for approval. The corporation generally files its rate application in June of each year for the fiscal year beginning the following March.

Future accounting changes will require the corporation to recognize its investments on a mark-to-market basis. This change will become effective during Manitoba Public Insurance's 2007/08 fiscal year.

Basic Autopac Rates

On November 20, 2006 the PUB released its ruling on Manitoba Public Insurance's rate application for the 2007/08 fiscal year. Effective March 1, 2007, Basic insurance rates will be reduced by 3.0 per cent for owners of private passenger vehicles while commercial vehicles and motorcycles will experience an increase of 5.4 per cent and 5.0 per cent respectively. The main components and coverages of the Basic insurance plan will remain unchanged from the previous year.

Premium Rebate

The PUB has ordered a rebate estimated to be $60.0 million, which will be paid to Basic insurance policyholders during the first quarter of the 2007/08 fiscal year.

Net Income

Current projections indicate that the corporation is expected to realize net income of approximately $14.9 million during the 2007/08 fiscal year.

Business Process Review

In 2006/07 the corporation moved forward with the Business Process Review (BPR), a series of business transformation projects aimed at renewing the corporate infrastructure while adding value for customers. Through technological and process improvements, the BPR is capitalizing on the new opportunities made possible by the merger of driver and vehicle licensing functions. The ultimate goals are enhanced customer service, operating efficiency and road safety.

The first of the three major BPR projects was the new driver licensing system, implemented in November 2006 following a year of planning and development. With all major components of that project now completed, the corporation's focus is turning to the two remaining BPR initiatives: the conversion of claim centres into multi-use Service Centres, and the introduction of an improved system for rewarding and penalizing driver risk.

Under the Service Centre model, 17 locations across the province will offer all the services now provided at driver and vehicle licensing offices while continuing to process claims. This transformation is expected to more than double the number of full-time customer service outlets for driver testing while tripling the number of locations for vehicle registration.

The number of outlets could more than quadruple for registration of commercial vehicles and enrollment in the International Registration Plan. As these service improvements are implemented, the corporation will be able to achieve operational efficiencies by automating more functions and reducing the number of stand-alone driver and vehicle licensing outlets.

By the end of 2006/07, the corporation began a pilot of the Service Centre concept in southern Manitoba. In the year ahead the project team will develop and test the technical solutions that are part of the planned service improvements. Experience gained in the pilot will enable the corporation to assess the impact on customer service and refine plans for facility changes and employee training at future service centre locations.

The third major BPR initiative, called the Driver Safety Rating, is aimed at bringing greater consistency, simplicity and equity to Manitoba's system of rewarding good drivers and penalizing those whose behaviour brings more risk into the driver and vehicle insurance pool. Another important aim of this initiative is to demonstrate to customers the linkage between individual driving behaviour and the amount that they pay for auto insurance.

In 2006/07 the corporation began mapping out the principles and policies that will provide the foundation for the program. In the year ahead, the corporation will consult with customers and stakeholders to refine program details and ensure the underlying principles are consistent with the needs and values of Manitobans. The supporting technology will be developed as consultation is underway.

Auto Theft

The corporation's auto theft strategy continues to evolve over time to meet emerging issues and address challenges of full participation. To date it has not found a way to engage 30,000 owners of Most at Risk vehicles who refuse to join the fight against auto theft by installing a free immobilizer. Clearly the voluntary program, even with its no-cost immobilizers and a streamlined installation process, has not had the desired impact – despite the fact that some of these customers have been approached more than a half-dozen times.

The corporation is committed over the next year to continue seeking new ways to gain the participation of these vehicle owners in the program.

The corporation recognizes that the long term health of the immobilizer incentive program is reliant on the integrity of the product and the installation process. That is why the corporation worked with immobilizer distributors and the national Vehicle Security Installation Bureau in the later part of 2006/07 to establish a comprehensive quality assurance program. This initiative provides the corporation with confidence that heading into 2007/08, customer complaints about the product and installation quality will be investigated thoroughly and that a proactive audit process will ensure the quality of the installations remains high.

Changes in Accounting Standards

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued Section 1530 *Comprehensive Income*, Section 3251 *Equity*, Section 3855 *Financial Instruments – Recognition and Measurement*, and Section 3865 *Hedges*. The following is a summary of the announced changes to Canadian accounting standards that the corporation believes will have an impact on its financial reporting. These new accounting standards apply to interim and annual financial statements that relate to fiscal years starting on or after October 1, 2006. The corporation will adopt these standards in its fiscal year commencing March 1, 2007.

Entities are required to classify all financial assets and financial liabilities as Held for Trading, Available for Sale or Held to Maturity. This classification determines how subsequent changes in the fair value of the financial instruments are recorded and reported in either net income or other comprehensive income. Following initial classification, an entity is not allowed to reclassify a financial instrument into or out of the Held for Trading category. Sale of more than an insignificant amount of Held to Maturity investments, resulting from a change in intent or ability, causes a tainting of the classification of those investments and the remaining Held to Maturity investments should be reclassified as Available for Sale.

Financial instruments will be measured at fair value and reported on the Balance Sheet as such except for Held to Maturity investments, which will continue to be measured at amortized cost, and investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost.

Changes in fair value for financial instruments classified as Held for Trading are to be recognized in net income. Changes in fair value for financial instruments classified as Available for Sale are to be recognized in other comprehensive income.

A new financial statement, the Statement of Comprehensive Income, is required to be produced and reported with the same prominence as the other financial statements. This statement presents surplus and other components that are recognized in determining comprehensive income. Comprehensive income will include all changes in equity during a period except those resulting from investments by owners and distributions to owners. Those financial instruments classified as Available for Sale will have the changes in fair value recognized in other comprehensive income until the asset is sold or impaired. Accumulated other comprehensive income is to be disclosed as a separate item within the company's equity.

Recognition and measurement of financial instruments is anticipated to make a significant change on the corporation's financial statements as the investments at February 28, 2007 are recorded at a book value of $2,015,010,000 and have a fair value of $2,095,293,000.

CORPORATE GOVERNANCE

Responsibilities of the Board

Manitoba Public Insurance was created by an act of the legislature to achieve the corporation's founding principles. The corporation's Board, appointed by the Government of Manitoba, ensures that corporate policies are consistent with its public policy mandate. The Board is also responsible for policy development and approval, and provides oversight and monitoring.

The corporation has a comprehensive annual strategic planning process. The Board participates in the development and approval of a five-year strategic plan. From that document flow lines of business strategies, human capital forecasts, premises and technology requirements, as well as a financial forecast. Divisional plans and departmental strategies support the strategic plan.

Monitoring of companies is becoming stricter with the introduction of new compliance controls by government bodies and regulators. These entity level controls are designed to enforce and improve transparency, accountability and integrity and include controls to ensure that:

- ethical values including codes of conduct are communicated and enforced;
- human resources policies and procedures are adhered to;
- entity-wide risk assessment processes are in place;
- financial reporting information systems are continuously being monitored; and
- the corporation complies with all sections of various legislative Acts.

To support these compliance controls and in particular to protect the financial well-being of the corporation, an anonymous and confidential Whistleblower Hotline system has been created for the receipt, retention and treatment of complaints from employees regarding accounting, auditing and internal control matters. As these matters are of paramount concern to the Board of Directors and senior management, the corporation has retained the services of an independent third party to collect information and provide reports directly to the Chair of the Audit Committee, the Corporate General Counsel and Manager of Internal Audit – recognizing that employees will be more likely to submit reports if they have a direct channel open to them with which they are comfortable.

Furthermore, it is the policy of the corporation to ensure there are no reprisals against any employee for accessing the Whistleblower Hotline and making a report, should the identity of the reporting employee become known despite stringent provisions for confidentiality. The purpose of the policy is to prevent and limit abuses of accounting, auditing and internal controls by disciplining those responsible, not to discipline those who report such abuses.

The corporation's governance structure was reviewed to highlight accountability, organizational effectiveness and risk mitigation. All corporate risks were reviewed and a monitoring process is in place to ensure timely recognition and response. Specific Board responsibilities have been delegated to five committees that meet quarterly to monitor risk and provide direct oversight. For example, the Audit Committee is responsible for evaluating about 40 specific risk profiles by likelihood and severity. These profiles were developed over time and are reviewed on an annual basis and placed into categories of high, medium and low risk. The Board committees include:

- Audit
- Budgeting and Operations
- Human Resources
- Investment
- Governance

Under the provisions of *The Manitoba Public Insurance Corporation Act*, the Board chairperson is required to provide the Minister Responsible for Manitoba Public Insurance with an annual report, which is subsequently reviewed by the Standing Committee of the Legislature. Additional oversight is provided by the Crown Corporation Council, a body given legislative authority to conduct a mandate and strategy review of provincial Crown corporations, and the Public Utilities Board, which approves Basic Autopac insurance rates.

Whistleblower Report

The Whistleblower Hotline completed its first full fiscal year of operation on February 28, 2007.

In that 12 month period, the corporation received two reports through the Whistleblower Hotline:

1. May 2006 – A report filed by a "customer" raised unspecified complaints of harassment. No response was received to the request that Manitoba Public Insurance be provided with sufficient information/ details to investigate the complaint. This matter is now closed.
2. September 2006 – A report filed by an employee expressing concern over the performance/work habits of a co-worker. The matter has been addressed internally. The report will now be closed.

The corporation continues with its plans for implementation of *The Public Interest Disclosure (Whistleblower Protection) Act*. Draft policies and procedures are being prepared for circulation to management and staff. A communication plan for employees is also under development.

Management is of the view that there is value in continuing with the operation of the Whistleblower Hotline with its guarantee of easy access and anonymity. The legislative requirements under *The Public Interest Disclosure (Whistleblower Protection) Act* can readily be incorporated into the operation of the corporation's current Whistleblower Hotline, which pre-dates the legislation.

Compliance to Legislative Authority Audit

In 2005, at the request of the Auditor General of Manitoba, the corporation's external auditors undertook a pilot project to audit the corporation's compliance with specified legislative and related authorities. The external auditors concluded that the corporation complied in all material respects with the specified legislative and related authorities.

The corporation determined there is value in this process. In 2006, the corporation engaged its external auditors to again conduct this audit, resulting in a finding that the corporation is in compliance in all material respects with the specified legislative and related authorities.

Compliance to Legislative Authority Sustainable Development Act

In accordance to Section 14 of *The 1997 Manitoba Sustainable Development Act*, the corporation can report that it had no reportable incidents during the period from March 1, 2006 to February 28, 2007.

The corporation has established sustainable development procurement guidelines to encourage sustainable development practices on the part of suppliers and business partners. Employees in procurement roles have received sustainable development procurement training. The corporation has also created a Sustainable Development Action Plan that is monitored by the corporation's Board of Directors.

During the reporting period, the corporation undertook a number of initiatives that were reported to the Board.

ASBESTOS TESTING

The corporation has adopted a policy to conduct thorough testing of soil and buildings prior to purchasing land or properties. In 2006, the corporation had a qualified third party conduct an extensive environmental review of the building and land at 1075 Portage Avenue. It identified the building contains free asbestos in the crawlspace and sealed and managed asbestos elsewhere in the building. The corporation has adopted an asbestos management program in the building and deferred remediation until the building is empty.

As a follow-up measure, the corporation conducted asbestos testing at three other sites. There was no asbestos detected in one site while asbestos sheet flooring was found at the other two sites. In both cases removal of the asbestos materials was completed in 2006.

WATER TESTING

The corporation annually tests the water quality of any facility that has a well as its main source of water. The corporation has only one facility that uses well water and in 2006 it found no signs of bacterial contamination in the water sample.

Twice a year the corporation tests run-off water from 13 sampling locations around its 1981 Plessis Road facility. In 2006, testing showed only minor traces of hydrocarbons and ethylene glycol at a small number of sampling locations. In all cases, the levels found were well below environmental thresholds.

In 2006 the corporation also tested for the presence of heavy metals at 1981 Plessis Road. Sediment from 13 sampling locations in drainage ditches were tested with no or trace levels found. All levels were well below environmental thresholds.

WASTE AUDITS

Since 2003, the corporation has conducted waste audits at Cityplace, 1981 Plessis Road and a claims centre in order to evaluate the waste reduction and opportunities. During the reporting period, waste generation per person decreased by more than seven kilograms per person while the level of recyclable material being collected for recycling increased. The audit found that at the corporate headquarters in downtown Winnipeg, 64 per cent of all waste is being diverted from landfills while the other locations are diverting about 40 per cent of their waste.

AIR QUALITY MONITORING

The corporation's claim centre garages are equipped with carbon monoxide detectors. Data recorded by these systems is downloaded and archived. Accuracy is also verified by independent third-party sampling. During the reporting period, there were no cases where CO levels exceeded workplace safety standards.

RECYCLING AND THE USE OF RECYCLED GOODS

The corporation undertakes a number of programs to divert waste to other reusable forms. In 2006, it:

- Sold 22,906 vehicles through the salvage sales department to automobile recyclers or the public so the vehicles could be rebuilt or used for replacement parts in other vehicles
- Used 88,602 recycled parts in claims repairs
- Extracted Freon from air conditioning systems in 13,547 salvage vehicles
- Extracted and used 20,719 litres of gasoline from salvage vehicles
- Used 18.2 million sheets of 30 per cent recycled paper
- Recycled 210.1 tonnes of paper products
- Recycled 0.66 tonnes of plastic and metal containers
- Participated in Manitoba's Computers for Schools and Libraries program and provided them with 152 personal computers, 66 monitors, 88 printers, three modems, one server, one scanner, 67 laptops and two CD towers
- Used only reclaimed and recycled asphalt, when available, in its paving projects
- Constructed and renovated facilities using work metal studding and demountable wall board panels, and used reclaimed conduit, wiring and switches in electrical work when appropriate
- Shipped 20,000 pounds of old carpeting to Interface Carpeting, an internationally recognized leader in sustainable development, to be recycled.

FLEET MANAGEMENT

In 2006, the corporation began experimenting with more fuel efficient vehicles including hybrid cars, vans and trucks that can run on 85 per cent ethanol fuel and bio fuels. Currently, one third of the corporation's fleet is made up of vehicles with four cylinder engines. It also has three gas/electric hybrid vehicles and 23 new vans that are capable of using 85 per cent ethanol fuel.

FACILITIES UTILITY MANAGEMENT

Utilities consumption (water, electricity and natural gas) is monitored for all buildings in order to establish baselines for evaluating consumption targets and improving energy efficiency. The corporation's two newest claims centres were built with energy conservation in mind. They use ground source heat pumps to heat and cool the building and glycol heat recovery systems to reuse exhaust heat. The buildings also use variable speed motors to heat and ventilate the buildings to conserve electricity. These claim centres exceeded the National Energy Code for Buildings by 38 per cent and 35 per cent.

The corporation has adopted the Leadership in Energy and Environmental Design (LEED) silver status for all future building projects.

The corporation has retrofitted all its buildings with energy efficient and PCB-free lighting. The corporation estimates it will recover the cost of these retrofits within three years. Newer buildings have also been outfitted with occupancy sensors and natural light sensors.

In 2006, the corporation also replaced 407 duplex outlets and 814 circuits for regular block heater plugs with temperature sensitive units that regulate electrical current based on temperature.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgements which have been reached based on careful assessment of data available through the corporation's information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by the Internal Audit Department.

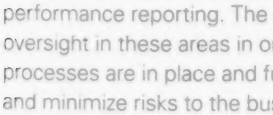
The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and his fee arrangements to the Board of Directors. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the actuary's opinion.

KPMG LLP, the corporation's appointed external auditors, have audited the financial statements. Their Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the corporation in accordance with Canadian generally accepted accounting principles.



M. J. McLaren
President and Chief Executive Officer
April 26, 2007

B. W. Galenzoski
Vice-President Corporate Finance
Chief Financial Officer and
Chief Administration Officer

AUDITORS' REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

We have audited the balance sheet of Manitoba Public Insurance Corporation as at February 28, 2007 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at February 28, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Winnipeg, Canada
April 26, 2007

ACTUARY'S REPORT

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities of Manitoba Public Insurance Corporation for its balance sheet at February 28, 2007 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Jim Christie

James K. Christie
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba
April 26, 2007

FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS

Years ended February 28		2007		2006
Revenue		(in thousands of dollars)		
Premiums written	**$**	**812,378**	$	779,316
Premiums earned (Note 8)	**$**	**798,811**	$	762,613
Service fees		**18,387**		15,795
Driver licensing operations recovery (Note 17)		**20,475**		21,000
Total earned revenues		**837,673**		799,408
Claims Costs				
Claims incurred (Note 8)				
Current year		**688,952**		627,698
Prior years (Note 7)		**(60,582)**		(11,108)
		628,370		616,590
Claims expense		**79,850**		78,586
Loss prevention/Road safety		**23,469**		12,041
		731,689		707,217
Expenses				
Commissions		**55,148**		51,868
Operating		**79,849**		74,285
Premium taxes		**20,803**		23,345
Regulatory/Appeal		**2,221**		3,452
		158,021		152,950
Total claims and expenses		**889,710**		860,167
Underwriting loss		**(52,037)**		(60,759)
Investment income, net (Note 10)		**120,425**		166,568
Net income from annual operations (Note 12)		**68,388**		105,809
Surplus distribution (Note 13)		**(59,652)**		(58,000)
Net income after surplus distribution	**$**	**8,736**	$	47,809

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

February 28	2007	2006
	(in thousands of dollars)	
Assets		
Cash and investments (Note 4)	**$ 2,015,010**	$ 1,887,922
Due from other insurance companies	**10**	7
Accounts receivable	**247,140**	232,902
Deferred policy acquisition costs	**17,002**	28,676
Reinsurers' share of unearned premiums	**10,027**	9,845
Reinsurers' share of unpaid claims (Note 7)	**27,844**	24,259
Property and equipment (Note 5)	**29,871**	31,409
Deferred development costs	**10,827**	3,875
	2,357,731	2,218,895
Liabilities and Retained Earnings		
Due to other insurance companies	**8,993**	8,824
Accounts payable and accrued liabilities	**92,562**	93,906
Unearned premiums	**403,929**	385,827
Provision for employee current benefits	**13,779**	12,695
Provision for employee future benefits (Note 6)	**166,472**	151,744
Provision for unpaid claims (Notes 7 and 11)	**1,399,748**	1,302,387
	2,085,483	1,955,383
Basic insurance retained earnings		
Rate stabilization reserve	**128,122**	136,071
Immobilizer incentive fund	**33,143**	37,063
	161,265	173,134
Competitive lines retained earnings (Note 14)	**110,983**	90,378
	272,248	263,512
	$ 2,357,731	$ 2,218,895

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

Shari Decter Hirst
Chairperson

Kerry Bittner
Director

STATEMENT OF RETAINED EARNINGS

Years ended February 28	2007	2006
Basic Insurance	(in thousands of dollars)	
Rate Stabilization Reserve		
Balance beginning of year	**$ 136,071**	$ 126,004
Net income (loss) from annual operations after surplus distribution (Notes 12 and 13)	**(11,869)**	27,703
Transfer from Competitive Lines (Note 14)	**–**	19,427
Transfer (to) from Immobilizer Incentive Fund	**3,920**	(37,063)
Balance end of year	**128,122**	136,071
Immobilizer Incentive Fund		
Balance beginning of year	**37,063**	–
Transfer (to) from Rate Stabilization Reserve	**(3,920)**	37,063
Balance end of year (Note 18)	**33,143**	37,063
Balance Basic Insurance Retained Earnings end of year	**161,265**	173,134
Competitive Lines		
Balance beginning of year	**90,378**	89,699
Net income from annual operations (Note 12)	**20,605**	20,106
Transfer to Basic Rate Stabilization Reserve (Note 14)	**–**	(19,427)
Balance Competitive Lines Retained Earnings end of year	**110,983**	90,378
Balance Retained Earnings end of year	**$ 272,248**	$ 263,512

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Years ended February 28	2007	2006
Cash Flows from (to) Operating Activities:	(in thousands of dollars)	
Net income after surplus distribution	**$ 8,736**	$ 47,809
Non-cash items:		
Amortization of property and equipment and deferred development costs	**5,948**	5,528
Amortization of bond discount and premium	**5,611**	(1,646)
Gain on sale of investments	**(21,975)**	(23,089)
Write-down of investments	**1,058**	3,025
	(622)	31,627
Net change in non-cash balances:		
Due from other insurance companies	**(3)**	42
Accounts receivable	**(14,238)**	(10,250)
Deferred policy acquisition costs	**11,674**	(10,018)
Reinsurers' share of unearned premiums and unpaid claims	**(3,767)**	23,941
Due to other insurance companies	**169**	(2,724)
Accounts payable and accrued liabilities	**(1,344)**	64,760
Unearned premiums	**18,102**	15,281
Provision for employee current benefits	**1,084**	940
Provision for employee future benefits	**14,728**	16,563
Provision for unpaid claims	**97,361**	106,188
	123,766	204,723
	123,144	236,350
Cash Flows from (to) Investing Activities:		
Acquisition of property and equipment net of proceeds from disposals	**(3,612)**	(5,064)
Purchase of investments	**(637,320)**	(762,531)
Proceeds from sale of investments	**492,304**	566,913
Deferred development costs incurred	**(7,750)**	(4,041)
	(156,378)	(204,723)
Increase (Decrease) in Cash and Short-Term Investments	**(33,234)**	31,627
Cash and short-term investments beginning of year	**90,334**	58,707
Cash and Short-Term Investments end of year (Note 4)	**$ 57,100**	$ 90,334

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

1. Status of the Corporation

The Manitoba Public Insurance Corporation (the "corporation") was incorporated as a Crown corporation under *The Automobile Insurance Act* in 1970. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba.

Under the provisions of its Act and regulations, the corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations (note 11), the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business is subject to regulation by the Public Utilities Board (PUB) of Manitoba with respect to insurance rates and service fees (note 20).

Operations pertaining to driver safety, vehicle registration and driver licensing including all related financial, administrative and data processing services were transferred to the corporation, from the Province of Manitoba, effective October 4, 2004.

2. Basis of Reporting

The financial statements of the corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with Canadian generally accepted accounting principles.

The external actuary is appointed by the Board of Directors of the corporation. With respect to preparation of these financial statements, the external actuary is required to carry out a valuation of the policy liabilities and to report thereon to the corporation's Board of Directors.

The external actuary also uses the work of the external auditors in his verification of the information prepared by the corporation used in the valuation of the policy liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the external actuary and his report on the corporation's policy liabilities. The external auditors' report outlines the scope of their audit and their opinion.

3. Summary of Significant Accounting Policies

This summary outlines those accounting policies followed by the corporation which have a significant effect on the financial statements.

INVESTMENTS

Funds available for investments are invested by the Department of Finance, on behalf of the corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

Investments in bonds are carried at amortized costs. The applicable discounts or premiums are amortized over the life of the bond.

Investments in equities and other investments are carried at cost. Dividends on equity investments are recognized on an accrual basis.

Gains and losses on investments are recognized on the settlement date. Investments are written down to market value when there is a decline in value that is considered other than temporary.

The corporation has invested in an equity-linked note that is similar to a bond instrument, except for the interest component which is indexed to the Standard & Poor's 500 Composite Stock Price Index. Any interest component arising from changes in the index is recorded currently in the Statement of Operations under the heading "Investment income, net".

DEFERRED POLICY ACQUISITION COSTS

Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life:

- Land improvements 25 years
- Buildings 40 years
- Equipment:
  - Data processing 3 years
  - Automotive 5 years
  - Other 10 years

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

DEFERRED DEVELOPMENT COSTS

The costs of developing major information systems which are expected to be of continuing benefit to the corporation are deferred to future periods. These information system expenditures are stated at cost net of accumulated amortization and are amortized on a straight-line basis over five years.

UNEARNED PREMIUMS

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

PROVISION FOR EMPLOYEE BENEFITS

Provision for Employee Current Benefits

The provision for employee current benefits includes an accrual for vacation pay determined in accordance with the Collective Agreement.

Provision for Employee Future Benefits

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i) Pension Benefit Plan

The employees of the corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period.

ii) Other Benefit Plans

Other benefit plans consist of post-retirement extended health and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs.

Employees of the corporation are entitled to severance pay in accordance with the Collective Agreement and corporation policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

The provision for unpaid claims represents an estimate for the full amount of all costs, including adjustment expenses, and the projected final settlements of claims incurred to the balance sheet date. These provisions take into account the time value of money. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. To recognize the uncertainty in establishing these estimates and to allow for possible deterioration in experience, actuaries include explicit margins for adverse deviation in their assumptions. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

Recoveries from salvage and subrogation are recorded as an offset to claim costs. Expected future subrogation recoveries are included in the provision for unpaid claims.

A premium deficiency exists when future claims and related expenses exceed unearned premiums.

Premium deficiencies are recognized first by writing down the deferred policy acquisition costs with any remainder recognized as a liability.

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Investment income is allocated to the automobile insurance division lines of business and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business on the following basis:

i) Identifiable direct expenses are charged to each line of business.

ii) Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees and time usage. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Premiums, claims and expenses are reported net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned commissions is recognized as a liability in a manner which is consistent with the method used in determining deferred policy acquisition costs.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

FOREIGN CURRENCY

Monetary items denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the year-end. Revenue and expense items in foreign currencies are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

The corporation uses currency swaps and forward exchange contracts to manage the currency risk on specific foreign exchange denominated assets. Any gains or losses are recorded in the Statement of Operations under the heading "Investment income, net", on a fair value basis.

BASIC INSURANCE RATE STABILIZATION RESERVE

The Basic Insurance Rate Stabilization Reserve relates to basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

IMMOBILIZER INCENTIVE FUND

The Immobilizer Incentive Fund is an appropriation from the Basic Insurance Rate Stabilization Reserve. The fund is used to provide financial resources for vehicle owners to install electronic immobilizers and cover the administrative costs of the program.

RETAINED EARNINGS

Retained earnings are comprised of the accumulation of net income or losses for the Basic, Extension and Special Risk Extension lines of business.

MEASUREMENT UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Cash And Investments

(in thousands of dollars)	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and short-term investments	**$ 57,100**	**$ 57,100**	$ 90,334	$ 90,334
Bonds				
Federal	**316,144**	**323,899**	334,055	360,399
Manitoba:				
Provincial	**267,507**	**275,412**	193,142	199,741
Municipal	**96,858**	**98,174**	80,638	79,954
Hospitals	**27,130**	**27,108**	27,573	27,349
Schools	**358,637**	**358,637**	311,157	311,157
Other provinces	**332,991**	**346,595**	308,826	331,504
Corporations	**97,068**	**98,161**	117,612	118,956
Equity-linked note	**20,000**	**20,000**	20,000	20,000
	1,516,335	**1,547,986**	1,393,003	1,449,060
Other	**8,091**	**8,710**	7,300	7,792
Equity investments	**433,484**	**481,497**	397,285	422,250
	441,575	**490,207**	404,585	430,042
	$ 2,015,010	**$ 2,095,293**	$ 1,887,922	$1,969,436

Fair value, for cash and short-term investments, approximates carrying value due to the short-term maturity of these financial instruments.

The fair value of bonds for federal, provincial, certain municipal, certain hospitals, other provinces and corporations is estimated based on bid prices of these or similar investments.

The fair value of certain municipal, hospitals, school bonds and other is based on their carrying value which approximates market value.

The fair value of the equity-linked note and equity investments is based upon quoted market values.

INVESTMENT RISK

Investments carry certain financial risks including interest rate, cash flow and credit risk. The corporation manages these risks through the Investment Committee of the Board, which meets quarterly to discuss strategy and review performance and, if required, take remedial action. The investment objectives and goals of the corporation are embodied in an Investment Policy document, which sets target asset allocation and portfolio concentration limits as well as defining the credit quality of the counterparties and the percentage of highly liquid investments required to meet cash flow needs.

Significant terms and conditions, exposure to interest rate and credit risks on investments are:

i) Cash and short-term investments

Cash consists of cash net of cheques issued in excess of amounts on deposit. Included in cash and short-term investments are funds held in trust on behalf of other insurance companies in the amount of $1,168,000 (2006 – $5,523,000).

Short-term investments have a total principal amount of $54,910,000 (2006 – $79,560,000) comprised of provincial short-term deposits with an effective interest rate of 4.05 per cent (2006 – 3.30 per cent to 3.60 per cent), with interest receivable at varying dates.

The corporation has an unsecured operating line of credit with its principal banker in the amount of $5.0 million. There were no drawdowns against this line of credit at February 28, 2007.

ii) Bonds – interest rate risk

		2007		2006	
		Effective Rate	Coupon Rate	Effective Rate	Coupon Rate
		% Range		% Range	
Federal	semi-annual	**1.79 to 4.71**	**3.55 to 5.75**	1.67 to 4.56	3.00 to 6.00
Provincial	semi-annual	**1.95 to 5.76**	**1.75 to 8.50**	1.70 to 5.76	2.00 to 8.50
Municipal	semi-annual	**4.15 to 12.17**	**4.20 to 12.63**	4.17 to 12.19	5.15 to 12.63
Hospitals	semi-annual	**4.76 to 11.07**	**8.69 to 11.13**	4.98 to 11.10	8.69 to 11.13
Schools	semi-annual	**4.81 to 11.81**	**4.88 to 12.25**	4.81 to 11.83	4.88 to 12.25
Corporations	semi-annual	**3.95 to 5.20**	**3.49 to 11.00**	3.56 to 5.20	3.49 to 11.00

iii) Bonds – maturity profile

(in thousands of dollars)	2007			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ 16,415	$ 54,481	$ 245,248	$ 316,144
Manitoba:				
Provincial	9,094	71,283	187,130	267,507
Municipal	312	15,010	81,536	96,858
Hospitals	–	14,192	12,938	27,130
Schools	1,057	45,168	312,412	358,637
Other provinces	4,999	75,729	252,263	332,991
Corporations	–	46,412	50,656	97,068
	31,877	322,275	1,142,183	1,496,335
Equity-linked note	20,000	–	–	20,000
	$ 51,877	$ 322,275	$ 1,142,183	$ 1,516,335

(in thousands of dollars)	2006			
	Within One Year	One Year to Five Years	After Five Years	Total Carrying Value
Federal	$ 9,956	$ 71,173	$ 252,926	$ 334,055
Manitoba:				
Provincial	–	81,281	111,861	193,142
Municipal	293	10,097	70,248	80,638
Hospitals	–	14,386	13,187	27,573
Schools	1,775	42,658	266,724	311,157
Other provinces	6,869	72,127	229,830	308,826
Corporations	15,001	56,369	46,242	117,612
	33,894	348,091	991,018	1,373,003
Equity-linked note	–	20,000	–	20,000
	$ 33,894	$ 368,091	$ 991,018	$1,393,003

i) Currency swap

The corporation has entered into a currency swap relating to a Province of Quebec provincial bond denominated in US dollars for $10,000,000. The currency swap provides a fixed 5.76 per cent return in Canadian dollars. The agreement also provides that at predetermined future dates, the corporation pays a fixed 7.5 per cent rate based on the US $10,000,000 par value of the bond and receives 5.76 per cent return based on a Canadian dollar notional value of $13,350,000. The maturity date of the currency swap and the bond is July 15, 2023.

ii) Foreign exchange contracts

The corporation has entered into monthly foreign exchange forward contracts which provide that the corporation sells a specified amount of US dollars at a predetermined forward exchange rate and purchases the same amount of US dollars at the prevailing spot rate on the settlement date. At February 28, 2007, the corporation has contracted to sell US $90,900,000 at a forward rate of 1.167 and purchase the same amount of US dollars at the spot rate on March 31, 2007, which resulted in a gain of $1,200,000.

5. Property and Equipment

(in thousands of dollars)	2007			2006
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Land	$ 2,757	$ –	$ 2,757	$ 2,730
Land improvements	4,656	2,012	2,644	2,022
Buildings	27,773	11,557	16,216	17,290
Equipment	53,216	45,136	8,080	9,177
	88,402	58,705	29,697	31,219
Leasehold improvements	1,760	1,586	174	190
	$ 90,162	$ 60,291	$ 29,871	$ 31,409

6. Provision for Employee Future Benefits

The corporation has a defined benefit pension plan, severance benefit plan and a post-retirement extended health benefit plan, available to eligible employees. The defined benefit pension plan is based on years of service and final average salary whereas the severance benefit plan is based on years of service and final salary.

The corporation uses an actuarial valuation, on an annual basis, to measure the accrued provision for its benefit plans. The most recent actuarial valuation was conducted by an external pension actuary as at December 31, 2006, with the next scheduled actuarial valuation being December 31, 2007.

The actuarial valuation is based on the corporation's best estimate of various economic assumptions. With respect to the demographic assumptions, the corporation relies on and uses the assumptions adopted by the Civil Service Superannuation Board. Results from the most recent actuarial valuation, projected to February 28 and the corresponding economic assumptions are as follows:

	Pension Benefit Plan		Other Benefit Plans	
	2007	2006	2007	2006
Economic assumptions:				
Discount rate	**5.65%**	5.65%	**5.65%**	5.65%
Inflation rate	**2.25%**	2.25%	**–**	–
Expected salary increase	**2.75%**	2.75%	**–**	–
Expected health care cost increase	**–**	–	**7.00%**	7.00%

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2007	2006	2007	2006
Balance, beginning of year	**$ 124,368**	$ 110,532	**$ 27,376**	$ 24,649
Current service cost	**6,320**	5,756	**3,072**	2,370
Interest cost	**7,198**	6,461	**447**	343
Benefits paid	**(3,496)**	(2,587)	**(1,626)**	(1,301)
Actuarial valuation deficiency	**2,230**	4,206	**583**	1,315
Provision for employee future benefits	**$ 136,620**	$ 124,368	**$ 29,852**	$ 27,376
Employee contribution for the year	**$ 5,108**	$ 4,865	**$ –**	$ –

PLAN ASSETS

The corporation has not segregated investment assets to fund the benefit plans. Funding occurs as benefits are paid. The corporation has established a provision against general assets, which is being increased to match the increase in its benefit plan liabilities. The interest cost associated with the various benefit plans is based on market interest rates at the most recent valuation date.

(in thousands of dollars)	Pension Benefit Plan		Other Benefit Plans	
	2007	2006	2007	2006
Plan expenses for the year:				
Current service cost	**$ 6,320**	$ 5,756	**$ 3,072**	$ 2,370
Interest cost (Note 10)	**7,198**	6,461	**448**	343
Actuarial valuation deficiency				
Pertaining to interest (Note 10)	**1,404**	2,650	**–**	–
Pertaining to expense	**826**	1,556	**583**	1,315
	$ 15,748	$ 16,423	**$ 4,103**	$ 4,028

7. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

The provision for unpaid claims, including adjustment expenses, by major claims category includes:

(in thousands of dollars)	2007		2006	
	Gross	Reinsurers' Share	Gross	Reinsurers' Share
Automobile Insurance Division				
Liability	**$ 1,258,744**	**$ 27,812**	$ 1,177,963	$ 24,170
Physical Damage	**135,664**	**32**	119,067	89
	1,394,408	**27,844**	1,297,030	24,259
Discontinued Operations				
Personal/Commercial	**5,340**	**–**	5,357	–
	$ 1,399,748	**$ 27,844**	$ 1,302,387	$ 24,259

The provision for unpaid claims, including adjustment expenses, is discounted using the following discount rates:

	2007	2006
Pre-PIPP Weekly Indemnity	**3.0% per year**	3.0% per year
All other coverages	**5.0% per year**	By year – 5.35% and 5.00% thereafter
PIPP other than death and impairment	**3.0% per year**	3.0% per year

PIPP – Personal Injury Protection Plan

According to accepted actuarial practice, the discounted reserve includes a provision for adverse deviation of $238.2 million (2006 – $224.8 million) comprised of a claims development component of $151.1 million (2006 – $140.3 million) and an interest rate component of $87.1 million (2006 – $84.5 million).

No catastrophic losses are included in net incurred claims and adjustment expenses during the current fiscal year (2006 – $ nil). Catastrophes are an inherent risk to the corporation and may contribute materially to the year-to-year fluctuations in the corporation's results of operations and financial condition when they occur.

Unpaid claim liabilities are carried at values which reflect their remaining estimated ultimate costs for all accident years.

Changes in the estimate of net unpaid claims, recognized during the fiscal year ended February 28, 2007 for prior years, are as follows:

($ thousands of dollars)	Accident Years				
Net unpaid claims (valuation estimate as at February 28, 2006)	$ 302,928	$ 141,187	$ 137,885	$ 696,127	
Net payments for the year	114,433	19,120	8,370	28,220	
	188,495	122,067	129,515	667,907	
Net unpaid claims (revised valuation estimate as at February 28, 2007)	165,087	126,156	100,640	655,519	
(Redundancy) Deficiency	$ (23,408)	$ 4,089	$ (28,875)	$ (12,388)	$ (60,582)
Prior years (redundancy) deficiency		$ (24,664)	$ (8,486)	$ 22,042	$ (11,108)

Changes in the estimate of net unpaid claims for discontinued operations recognized during the fiscal year ended February 28, 2007 are a decrease of $0.1 million (2006 – decrease of $2.4 million). All of the net unpaid claims relate to loss dates prior to October 1, 1990.

The claims settlement processes may involve the use of structured settlements, which are purchased through various financial institutions. As of the balance sheet date, the present value of expected payments total $134.8 million (2006 – $133.5 million) based on various dates of purchase. The corporation assumes a financial guarantee to make payments to claimants in the event that financial institutions default on payments under the terms of the structured settlement.

8. Reinsurance

The corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at February 28, 2007, these reinsurance agreements limit the corporation's exposure to a maximum amount of $5.0 million (2006 – $5.0 million) on any one occurrence.

The reinsurance arrangements also limit the corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $10.0 million (2006 – $10.0 million). These arrangements protect the corporation against losses up to $183.3 million (2006 – $166.7 million).

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policyholders remains with the corporation.

The corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant losses from reinsurer insolvency. The corporation holds collateral in regards to unregistered reinsurance in the form of letters of credit of $0.4 million (2006 – $0.6 million).

The figures shown in the Statement of Operations are net of the following amounts relating to reinsurance ceded to other companies:

(in thousands of dollars)	2007	2006
Premiums earned	**$ 12,291**	$ 15,535
Claims incurred	**$ 4,754**	$ (23,086)

9. Operating Lease Commitments

The corporation is committed to make minimum annual operating lease payments for buildings and equipment. The minimum annual lease payments required are approximately as follows:

(in thousands of dollars)	
Fiscal Year	**Minimum Lease Payments**
2008	$ 3,123
2009	$ 3,028
2010	$ 2,882
2011	$ 2,735
2012	$ 2,902
thereafter	$ 3,354

10. Investment Income, Net

(in thousands of dollars)	2007	2006
Total investment income	**$ 129,027**	$ 175,679
Less allocation to		
Provision for pension benefit plan (Note 6)	**8,602**	9,111
Investment income, net	**$ 120,425**	$ 166,568

Included in total investment income are cash dividends of $9.0 million (2006 – $7.3 million).

11. Discontinued General Insurance Operations

The corporation discontinued writing reinsurance assumed business effective November 18, 1987 and personal and commercial insurance policies effective October 1, 1990.

As of February 28, 2001 the corporation accepted a third party offer to purchase the reinsurance assumed business from the corporation. Under the terms of the agreement, the corporation transferred and assigned to the third party the title, interest and all of the obligations resulting from the uncommuted reinsurance assumed treaties written by the corporation for the period July 1, 1975 to November 18, 1987 including retrocessional treaties. The obligations include all known or unknown liabilities. The primary liability to the treaty holders remains with the corporation in the event of the third party's insolvency.

Claims costs and expenses on personal and commercial policies will be incurred until all claims on existing policies are settled.

Discontinued operations resulted in a net income of $0.5 million (2006 – $2.9 million) which is reported as part of the Special Risk Extension line of business (note 12). Included in the provision for unpaid claims is $5.3 million (2006 – $5.4 million) relating to discontinued operations.

12. Net Income from Annual Operations

The lines of business reported net income from annual operations as follows:

(in thousands of dollars)	2007	2006
Basic insurance	**$ 47,783**	$ 85,703
Extension insurance	**3,235**	9,168
Special Risk Extension	**17,370**	10,938
	20,605	20,106
Net income from annual operations	**$ 68,388**	$ 105,809

13. Surplus Distribution

On November 20, 2006 the Public Utilities Board of Manitoba released its ruling on the corporation's 2007/2008 Basic Insurance rate application and ordered a surplus distribution of 10 per cent of the basic motor vehicle premiums written based on 2005/2006 rates. The surplus distribution, estimated to be $60.0 million, is recognized in 2006/2007 and will be paid to policyholders during the 2007/2008 fiscal year.

Last year's estimated surplus distribution of $58.0 million was actualized in the current fiscal year to $57.7 million which was distributed to Basic policyholders.

14. Transfer of Retained Earnings

Effective March 1, 2006, the corporation ceased the transfer of retained earnings from its competitive lines of business to the Basic Insurance Rate Stabilization Reserve.

On March 1, 2005 the corporation transferred to the Basic Insurance Rate Stabilization Reserve retained earnings of $19.4 million from its competitive lines of business.

15. Fair Value Disclosure

The fair value of financial assets and liabilities, other than cash and investments (note 4) and provision for unpaid claims (note 7) approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

16. External Auditor and External Actuary Costs

The Basis of Reporting note (note 2) provides information on the appointment of the external auditor and external actuary. In the normal course of business, and in addition to the annual attest audit of the corporation's financial statements and valuation of policy liabilities, the external auditor and external actuary provided advisory services to the corporation.

Costs incurred for services rendered are:

(in thousands of dollars)	2007	2006
KPMG LLP		
Audit fees	$ 190	$ 135
Advisory fees	2	2
Total	$ 192	$ 137
Ernst & Young LLP		
Valuation of policy liabilities fees	$ 118	$ 94
Actuarial advisory fees	78	72
Management advisory fees	35	18
Total	$ 231	$ 184

17. Driver Licensing Operations Recovery

Effective October 4, 2004 the Province of Manitoba transferred the management and administration of driver licensing to the corporation which includes all aspects pertaining to driver safety, vehicle registration and driver licensing including all related financial, administrative and data processing services.

The Province of Manitoba has agreed to provide funding to the corporation, in the amount of $21.0 million annually, into perpetuity, payable in equal monthly installments of $1.75 million to defray the cost borne by the corporation as a result of the transfer.

The current year's $21.0 million funding was reduced by $0.5 million on a one-time basis to defray the costs to the Province of Manitoba of aligning the renewal of driver licences with motor vehicle registrations.

The corporation, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees and driver licensing fees to the Province of Manitoba.

Fees collected on behalf of and transferred to the Province of Manitoba include:

(in thousands of dollars)	2007	2006
Vehicle registration fees	**$ 99,705**	$ 97,075
Driver licensing fees	**16,992**	18,808
Total	**$ 116,697**	$ 115,883

18. Immobilizer Incentive Fund

Activity in the Immobilizer Incentive Fund includes:

(in thousands of dollars)	2007	2006
Balance beginning of year	**$ 37,063**	$ –
Transfer from Basic Insurance Rate Stabilization Reserve	**10,000**	40,000
Less: Funds transferred to Basic Insurance Rate Stabilization Reserve to offset program costs	**(13,920)**	(2,937)
Balance end of year	**$ 33,143**	$ 37,063

The Immobilizer Incentive Fund was established during the 2005/2006 fiscal year, to fund the Immobilizer Incentive Program. An additional $10.0 million was transferred to the Immobilizer Incentive Fund during 2006/2007 to expand the No Cost Immobilizer Program to all Manitobans owning most at risk vehicles.

Program costs incurred are included in the "net income from annual operations after surplus distribution" for the Basic Insurance line of business, which is reported in the Statement of Retained Earnings under the heading "Rate Stabilization Reserve".

Funds are transferred from the Immobilizer Incentive Fund to the Basic Insurance Rate Stabilization Reserve to offset the program costs incurred.

19. Subsequent Event

Effective March 1, 2007 the Board of Directors have approved retained earnings targets for Extension and Special Risk Extension lines of business (Competitive Lines) based on 200 per cent of the most recent year's Minimum Capital Test (MCT). The MCT is a risk-based methodology developed by the Office of the Superintendent of Financial Institutions (OSFI) to assess a property and casualty insurance company's financial risk and determines the capital adequacy of reserves held in retained earnings.

Further, the Board of Directors approved that the Competitive Lines retained earnings in excess of the most recent year's target of 200 per cent of MCT will be appropriated, effective March 1, 2007 on a one-time basis, into the Extension Development Fund (EDF). The EDF will be established using $39 million of Competitive Lines retained earnings. The EDF will be used to defray the annual driver licensing project costs that flow through the Extension line of business statement of operations.

20. Rate Regulation

The corporation's basic universal compulsory automobile insurance line of business (Basic insurance) is subject to regulation by the Public Utilities Board (PUB) of Manitoba. Under the provisions of *The Crown Corporations Public Review and Accountability Act*, the PUB has the authority to review and approve Basic insurance rates, premiums and service fees charged with respect to compulsory driver and vehicle insurance provided by the corporation. No new rates or fees for services can be introduced without the approval of the PUB. The Board is required to ensure that the rates are just, reasonable and not unduly discriminatory or preferential.

Annually the corporation prepares its Basic insurance general rate application and files it with the PUB in the month of June for implementation the following fiscal year commencing on March 1. The general rate application includes the prospective rate requirements based on historical and forecasted financial and other information as well as the application of actuarial, accounting and statistical principles and practices.

The corporation is required to pay a portion of the PUB's operating costs relating to the corporation's share of the overall PUB budget. In addition, the PUB can also order the corporation to reimburse other proceeding participants for specified costs such as their time, legal and expert witness fees.

21. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year financial statement presentation.

Administrative Offices

Brandon
731-1st Street
R7A 6C3
Tel: 729-9400
Head office and Special Risk Extension

Winnipeg
Box 6300
R3C 4A4
Tel: 985-7000

Outside Winnipeg
Tel: 1-800-665-2410

Deaf access TTY / TDD
Tel: 985-8832

Claim Offices

North
445 King Street
R2W 5H2
Fax: 942-8317

North Central
1103 Pacific Avenue
R3E 1G7
Fax: 783-2764

South
930 St. Mary's Road
R2M 4A8
Fax: 254-0308

South Central
420 Pembina Highway
R3L 2E9
Fax: 284-7675

West
125 King Edward Street East
R3H 0V9
Fax: 783-0374

Casualty and Rehabilitation
Box 6300
R3C 4A4
Tel: 985-7200

Rehabilitative Case Management
Box 6300
R3C 4A4
Tel: 985-7200

Bodily Injury and MedEx Injury
Box 6300
R3C 4A4
Tel: 985-7200

Physical Damage Centre
1981 Plessis Road
Box 45064
Regent Postal Outlet
R2C 5C7
Tel: 985-7771

Holding Compound
Tel: 985-7771

Salvage
Tel: 985-7844

Commercial Claims
Tel: 985-7877

Arborg
323 Sunset Boulevard
Box 418
R0C 0A0
Tel: 376-6633

Beausejour
848 Park Avenue
Box 100A
R0E 0C0
Tel: 268-6400

Brandon
731-1st Street
R7A 6C3
Tel: 729-9555 Claim Centre
Tel: 1-800-852-2743 Rural

Dauphin
217 Industrial Road
Box 3000
R7N 2V5
Tel: 622-2750

Flin Flon
8 Timber Lane
Box 250
R8A 1M9
Tel: 681-2200

Portage la Prairie
2007 Saskatchewan Avenue West
Box 1150
R1N 3J9
Tel: 856-2600

Selkirk
630 Sophia Street
R1A 2K1
Tel: 482-1400

Steinbach
91 North Front Drive
Box 2139
R5G 1N7
Tel: 326-4453

Steinbach Injury Claim Services Clearspring Mall 2
PTH 12
R5G 1T7
Tel: 346- 8030

Swan River
125-4th Avenue North
Box 1959
R0L 1Z0
Tel: 734-4574

The Pas
424 Fischer Avenue
Box 9100
R9A 1R5
Tel: 627-2200

Thompson
53 Commercial Place
Box 760
R8N 1N5
Tel: 677-1400

Winkler
355 Boundary Trail
Box 1990
R6W 4B7
Tel: 325-9538

Driver and Vehicle Licensing Centres

1075 Portage Avenue
R3G 0S1
Tel: 985-7000

Main Floor –
330 Graham Avenue
R3C 1M8
Tel: 985-7000

2020 Corydon Avenue
R3P 0N2
Tel: 985-8992

2188 McPhillips Street
R2V 3C8
Tel: 985-8984

1006 Nairn Avenue
R2L 0Y2
Tel: 985-8043

Portage la Prairie
Provincial Building
25 Tupper Street North
R1N 3K1
Tel: 856-2624

Brandon
602-1st Street
R7A 6K5
Tel: 729-9487

Dauphin
Provincial Building
27-2nd Avenue Southwest
R7N 3E5
Tel: 622-2783

Thompson
Provincial Building
105–59 Elizabeth Drive
R8N 1X4
Tel: 677-1421

Winkler
355 Boundary Trail
Box 1990
R6W 4B7
Tel: 325-9538

Manitoba
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